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THE RELAXATION OF CHINA EMBARGO AND ITS CONSEQUENCES

The relaxation of the embargo on British "strategic" exports to China comes late in the day. The Korean war, which was the occasion for the embargo, ended so long ago that many would be hard put to it to name the date when hostilities did cease. This would not be due to the confusion that attended this so much as to the distance of swift, unyielding and massive time—time which has been marching on with footfalls that will ring down through the ages. China had contracted with the Soviet Union and the so-called people's democracies to supply the capital equipment for her great basic industries. It may well be that they have "come to stay" in the China market, but though the tendency of all Communist industrialization is to become almost self-sufficient, they are quite ready to pick our brains when some new scientific or engineering invention is available in Western countries. They have ceased altogether to bother about consumer or light industry goods from the West. But just as circumstances transformed two of the biggest pre-war traders with China—the United Kingdom and the United States—into mere onlookers and a complete onlooker like the Soviet Union into the main supplier, so may another swing of the pendulum reverse the picture again. In any case, the more modest the expectations of increased exports to China the better. It may save disillusionment.

But whether the relaxation means a little more trade or more than a little, it is a good thing, because it marks a return to something like sanity in this

vexed question. It removes one more grievance with which the Peking leaders try to condole with the people in their not particularly profitable international situation. It is all very well to retort with talk about self-denial, but it is a policy often marked by sharp edges which symbolise the hostility animating the gesture. Those who fail to understand the irrational American attitude toward any sort of trade or contact with China—save at the unending and now almost farcical meetings and partings at Geneva—can only be reminded of half-a-century of almost fanatical American friendship for China and the Chinese, and of the heavy cost in thousands of American homes brought about by Chinese Communist intervention in the Korean War. Patience is thus still necessary in viewing the irate reaction of American politicians to any approach to more trade with China, though nearly everybody knows that in the purely practical sense they have not a sensible leg to stand on. That refers even to the real strategic goods, which have been supplied on a wholesale scale by the Soviet and other Communist countries. It refers no less forcibly to the marginal goods which are now the sole issue: goods which can be, and have been, supplied to the Soviet Union and could therefore reach China through her ally. The cause of the boycott or blockade or embargo was therefore lost, and there is not much satisfaction to be derived from the fact that by denying ourselves in vain we forced China to buy more and more from the Soviet Union.

It will be seen in due course how small and petty this issue of the marginal goods, and of the

discrimination between Moscow and Peking, really is. Even on the question of rubber the altered policy is not going to make much difference for some time, at least not till the obligations China has incurred in connection with supplies from Ceylon, Indonesia and perhaps Thailand have been satisfied. True, the news sent up the price of rubber, and caused a temporary flurry in the market for rubber shares here. But it may well be that the importance of the move will be psychological rather than economic. The embargo was in fact a farce, as it was dubbed by the Chairman of the Hongkong Exporters Association a week or two ago. China, he said, had become accustomed to trading without us, however logical and convenient trading with Hongkong may be. But he did assume that the countries that manufacture the machinery China requires may benefit.

If China were not run by Communists, the risks of depending almost wholly on the Communist bloc, and especially on the Soviet Union, would be obvious. Perhaps even as things are it is a source of real worry, because it is now clear, as was long suspected, that Moscow and Peking began to differ as long ago as 1950, when Stalin chose to regard China as no better than any other satellite. It may be that in course of time, as development goes on apace—beyond the basic industries to which Soviet equipment is already committed—ever new engineering manufactures will influence the points of purchase. An example may be cited in the record single order for automatic pharmaceutical machinery placed with a Birmingham firm by the Chinese Government. This was for 32 automatic vial-filling, rubber bunging and sealing machines worth £100,000. Machines of this type are said to be the only ones in the world that can handle bungs in any condition entirely automatically, fill the vial accurately and spin the aluminium cup.

But it would be an evil day when the welfare of the British Commonwealth depended on such adventitious orders. Nevertheless this single instance may be repeated a hundred times. The fertility of invention and the endless stream of new gadgets are being supplemented now by an enormous new range of potentialities in this age of the atom and of automation. The chocolate bars which used to be seen in every town in China, and the familiar tins of English biscuits, may never be seen there again. And the refusal to be interested in gewgaws and such like things of which the Emperor Chien Lung spoke so loftily is now more practical than disdainful. But so long as the British remain the most inventive people on earth, so long will it be necessary to watch and cultivate them and buy from them, despite the urge for industrial self-sufficiency. Moreover, we may expect the engineers and scientists who have returned from the West to make their presence and their predilections more and more felt. The number of Chinese scientists and technicians who owe their training to the Soviet Union is negligible. The men of ambition who went there for enlightenment were almost all of the agitation and doctrinal type. They went to learn the gospel according to Marx, not how to make things with their hands or their brains. And that will tell in the long run when—as is positively certain—the Unequal Treaties which gave Russia all Siberia east of the Urals, and Outer Mongolia as well, come up for the final reckoning.

International trade with China is conditioned in the first place by the passion for self-sufficiency in basic production. But that category included yesterday the familiar steam locomotive which Britain was the first to invent and make and to import into China. Today it is the electric or the diesel engine. And so it goes on, change gathering speed as it attains range and volume. In Chien Lung's time what we had to offer aroused his frank derision. But look at the profusion of new things today—and at the promise of even stranger inventions tomorrow! But for the

NEW LOOK IN SOVIET ATTITUDE TO FAR EAST

By W. Z. Laqueur

The recent revival of Oriental studies in the Soviet Union obviously has more than academic significance when viewed against the backdrop of Soviet diplomatic efforts to win friends and influence people in the non-Communist lands of the Middle and Far East. The revival primarily concerns studies on contemporary Asiatic problems and is the more striking because it follows the almost total eclipse of such studies from 1938 to 1954. Since May 1955, moreover, there has been a sharp and significant change in the whole approach of Soviet Eastern experts toward the national governments and movements in various countries of the non-Communist East. This faithfully reflects the new, altered line of Communist diplomacy in Asia epitomized so dramatically by the Khrushchev-Bulganin goodwill tour of India, Burma and Afghanistan.

moment we operate only under the Exceptions Procedure for goods not controlled for the Soviet bloc to appease the sharp conscience of politicians who, for some unexplained reason, seem in this instance far more powerful than Big Business, which would surely like to get in on the ground floor even if the embers of past passions, spent on China, have hardly a trace of the old flame. But at least we shall be able to ship Malayan rubber direct—when China wants to buy it—instead of sending it via Odessa or the Polish port of Gdynia which few can pronounce and fewer still can spell without a grimace.

Some Congressmen of the more obscure type call the decision to ship Malayan and other rubber direct to China instead of through the Soviet Union or other devious routes as a "tragic mistake." What Britain is doing, said Senator Mundt, is making it easier for Red Communism to expand in Asia. "Communism will dig its fangs into British interests in Asia as rapidly as it develops strength enough to do so." One gathers that the result may be that India will get no aid. One sympathises with the passion but not with the reasoning.

Some may argue that the whole position would change drastically if, instead of a purely negative and self-denying policy, America went all out to win the New China as she sedulously wooed the old. That is neither possible nor even desirable. The time will come, if it is not here already, when Peking will woo America far more intently. In the meantime it seems fairly clear that both Moscow and Peking are disposed to look to us as mediators in the hope that Britain may perhaps help to bring them together. The disposition will grow. It should be encouraged. The honest broker will get his percentage. But the major gain will be far more widely spread. In the meantime it is a good policy to strengthen the dykes which stop the Red flood southward to South-East Asia. It will in due time, thus obstructed, turn its direction northward. Then—and not till then—all will be plain sailing, if by that time we are not too intimately committed to the Russians. There is a great possibility of this, as Peking perhaps knows only too well. And it is in this direction that events are moving, for just as the anti-British outbursts in Singapore, the insults from Ceylon, and similar anti-Western phenomena in Asia have shown that Asia is responding basically to racial and colour passions, so are there signs that the Commonwealth, the Atlantic Union; and Europe are turning in kind to a community of race and culture rather than to a multi-racial multi-coloured community.

To indulge in a practice much favored by Soviet authors, one may divide the historical development of Soviet Oriental studies into six periods. The decade from 1919 to 1928 might be termed the "golden age" of Soviet Orientalology, during which the attitude toward Asia was generally friendly. From 1929 to 1934, reflecting the general hardening of the Comintern line, this sympathetic attitude was replaced by hostility toward the Asiatic national movements, and there was a corresponding decline of Oriental studies. Then, with the switch to worldwide "popular front" tactics in 1935, a revival got under way, only to be cut short in 1937 by the Great Purge, which hit Soviet Oriental experts particularly hard.

From 1923 to 1948, encompassing the entire duration of World War II, events in Asia were largely ignored in the USSR, and Oriental studies remained in eclipse. In 1948 Soviet policy in Asia again began showing gradually increasing activity, but the almost total absence of studies on contemporary Eastern affairs continued until 1954. The great revival began in the latter part of 1954 and continues at the present time. As already noted, the revival was marked at first by a sharply critical attitude toward the non-Communist national regimes and movements of the East, shifting suddenly to a sugared tone of friendship in the summer of 1955.

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The "golden age" of Soviet Orientalology developed, curiously enough, against a background of relative indifference toward Asia on the part of the newly-established Bolshevik regime. Communism in 1917 was not much more interested in that part of the world than were the other Western political movements of the period.

To be sure, Lenin in 1913 had written an article entitled "Backward Europe and Progressive Asia," which is often quoted today as proof of his prescience. But Lenin's orientation was wholly western, and he himself acknowledged that this title was a bit facetious. He noted, as did others, the great spiritual impact which the Russian revolution of 1905 had had on many Asian countries; and he also remarked that by and large the middle class in Asia was still joining forces with the proletariat whereas, in Europe, the proletariat had become "the only progressive force." It was only in one of his last articles, published some years after the 1917 revolution, that Lenin recognized the long-range importance of Asia to the future of world communism, declaring that the outcome of the struggle would be determined in the last resort by the fact that the USSR, India and China together account for the vast majority of mankind.

Despite this acknowledgment of the potential importance of Asia, the East occupied an inconspicuous place in overall Soviet policy calculations throughout most of the 1920's. The Baku Congress of the Peoples of the East, held in the fall of 1920, did—it is true—make at least a symbolic gesture toward spreading the Bolshevik revolutionary philosophy to the unawakened Asian masses; and the early 1920's also saw the short-lived Soviet irruption into Iran and flirtation with Turkey. Although somewhat greater attention was given to Asian affairs during the latter 1920's, it was focused almost exclusively on the question of Communist tactics in China; Stalin and the other party leaders evinced no real interest in the Middle East.

The elaboration of theses in accordance with the exigencies of the time and of Soviet foreign policy was left to the lower echelons of the Comintern hierarchy.

The keynote of Communist policy with regard to Asia during this period had been laid down in the theses adopted by the Second Comintern Congress in 1920. In contrast to the sharply hostile line prescribed toward social democracy in Europe, the Second Congress theses stressed the necessity of supporting bourgeois movements of liberation in the colonial and backward countries of the East, and of entering into temporary alliances with them. At the same time they ascribed special importance to supporting the peasant movements in these countries in opposition to the big landowners and "reactionary medieval influences."

The Leninist idea of temporary collaboration with the bourgeois democratic movements of Asia was not wholeheartedly welcomed by some of the Asiatic delegates to the Congress. Roy, the Indian representative, demanded that a clear-cut distinction be made between the bourgeois national movements which proposed to achieve their political aims within the framework of the existing order, and the struggle of the peasants directed against "every form of exploitation." Support of the latter, he argued, should not be sacrificed, even temporarily, to an expedient alliance with bourgeois elements. Nevertheless, the Leninist line prevailed.

As a result of this mild, unrevolutionary policy for Asia, coupled with the relatively minor official concern over Eastern affairs, Soviet Orientalists enjoyed a fair amount of latitude in the early years after the revolution. In December 1921 they were allowed, with the government's blessing, to organize an all-Russian Association of Eastern Studies (VNAC), which became a subsection of the Commissariat of Nationalities; and for a time there was a parallel Ukrainian association. Another center of Oriental research was the Moscow Institute of Eastern Studies. The principal organ of the Orientalists was the review *Novyi Vostok* (New East), published by the All-Russian Association of Eastern Studies from 1922 to 1930.

Broadly speaking, there were three groups of Orientalists, each with a different approach and outlook. First, there were the academicians, the scholars of great international standing, such as V. V. Bartold, S. F. Oldenburg and I. Y. Krachkovski; they continued their historical researches within the framework of the Academy of Sciences and seldom, if ever, turned their attention to topical Eastern affairs. A second group was composed of Communists without academic training but with academic ambitions, some quite capable and others of no distinction whatever. This group ran the review *Novyi Vostok* and had as its outstanding members Mikhail Pavlovich (Weltmann) and V. A. Gurko-Kriazhin, both Old Bolsheviks and experts on Middle Eastern political problems. Finally, there was a group of party, government and Comintern officials with special interest or on-the-spot experience in the East—men like G. I. Brodov, key figure in the Communist subjugation of Turkestan, and Pavel Mif, later to play an active role as Comintern representative in China. Apart from defining the party line, the contribution of this group to Soviet Eastern studies was of little importance.

Even with the relative freedom allowed during this period, Soviet Orientalology showed a definite party coloring. This was clearly evidenced by frequent statements in *Novyi Vostok* opposing the aim of Soviet Eastern studies to that allegedly pursued by Western Orientalists.

Konstantin M. Troianovsky, another member of the group, touched upon the same theme in the inaugural issue of *Novyi Vostok*. It was clear to every revolutionary, he wrote, that for the colonial peoples of the east, there could be "no national liberation outside of social liberation."

The Orientalists of this school published a great many books and pamphlets on Eastern problems (all too frequently based on secondary Western sources) seeking valiantly but not always successfully for evidences of a revolutionary spirit in the East. Indeed, the voluminousness of their writings on the subject appears strangely incongruous with the slight significance of Asiatic revolutionary movements during this period. There was to be an equally striking incongruity—in reverse—in the late 1940's, when these movements had gained real momentum and importance and there was no Soviet Orientalist literature to hail them.

Among the topics of primary interest to Soviet Orientalists in the 1920's, on the historical level, was the origin and social character of Islam, an issue which became the subject of protracted and acrimonious debate and which evoked a dozen or more conflicting theories. On the political level, the paramount Orientalist task was to appraise the various national movements in the East in the light of Marxist-Leninist tenets and guide Communist relations with them along the desired channel.

It is interesting from an historian's viewpoint to note that the late 1920's found Soviet Orientalists devoting considerable attention to a proposal which was subsequently forgotten but now has regained prominence as a keystone of Soviet Asiatic policy. This was the thesis, put forth and developed at the Fifteenth CPSU Conference in 1926, that the Soviet Union could and should help to bring about the industrialization of the backward countries of Asia in order to prevent their engulfment by "capitalist imperialism." Its author was Nikolai Bukharin, who was to be executed as a pro-Fascist "traitor" in the Stalinist purge of 1938.

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In spite of the Marxist tinge and flood-like volume of their publications, Soviet Orientalists began to come in for censure as early as 1925 on the ground that their studies were too apolitical. But real pressure was not brought to bear on them until the Sixth World Congress of the Comintern in September 1928, which marked a general stiffening of the international Communist line. In particular, the Sixth Congress' "Theses on the Revolutionary Movement in the Colonies and Semi-colonies" cast into the limbo the past line of collaboration with the national regimes and national liberation movements of the East, denouncing the Chinese Kuomintang as an "openly counterrevolutionary force" and Gandhism in India as a doctrine opposed to the class struggle and mass revolution. Other national leaders and movements fared no better. Henceforth, the battlecry was to be agrarian revolution for the purpose of wresting power from the national bourgeoisie.

As a direct repercussion of this shift, steps were taken to correct the allegedly apolitical approach of Soviet Orientalists. An all-union conference of Eastern experts was convened, at which a resolution was adopted criticizing the Association of Eastern Studies on the ground that it was constituted mainly of (1) persons who pretended to be Marxists but actually were not; (2) apolitical academicians; and (3) pseudo-scholars. The Association eventually was dissolved and replaced by a new "Association of Marxist-Orientalists at the Comacademia". This imposing title and the name given to the new Association journal, *Revolutsionnyi Vostok* (Revolutionary East), symbolized the change, which was designed to stress the divorce of Soviet Oriental studies from the "ivory tower" atmosphere of the Academy of Sciences.

Needless to say, the reorientation of the Comintern line in Asia, and consequently of the tone and content of Soviet Oriental studies, was not the result of any new re-

velations or discoveries on the theoretical level. It was an outgrowth of the changed international situation and, particularly, of the untoward turn of events in China where Chiang Kai-shek, after successfully establishing Kuomintang rule with Communist backing, had turned against the Reds in 1927.

Called upon to do a quick about-face, Soviet Orientalists now denounced the same national movements which hitherto had been considered communism's main allies, as "our main enemy in the backward countries, just as the Social Democrats are our chief foes in the more developed areas." Particular opprobrium was heaped upon the left-wing or "national reformist" elements in the Kuomintang, the Indian Congress and the Egyptian Wafd. All these "national reformists" were against agrarian revolution, it was asserted, and historical experience demonstrated that without such revolution there could be no national liberation.

The Eastern nationalist leaders—Nahas Pasha, leader of the Egyptian Wafd; Reza Sha Pahlevi, ruler of Iran; and Chiang Kai-shek, leader of the Kuomintang—were charged with trying to exploit differences between the Soviet Union and the "imperialist powers" and with having sought a "rapprochement with the Soviet Union merely to strengthen their own position." These accusations make even more interesting reading in 1956 than in 1933.

For Soviet Oriental studies this was a most difficult period. The academic historians continued their research but were hardly able to publish anything at all. *Revoliutsionnyi Vostok* had to eschew scholarly articles and concentrate on denouncing "national reformism". The commandments of the hour were to attack Japanese "social fascism" (the Social Democrats), to castigate Gandhi as one of the most odious figures among all the leaders of bourgeois nationalist movements, and so on.

* * *

After roughly six years of this blustering, intransigent line, Soviet Orientalists were obliged to perform another about-face. With the adoption of the "popular front" as the keynote of Soviet world policy in 1935, the slogan of a wide coalition against fascism was proclaimed in Asia as in Europe. The "national reformists" again became allies of the Communists, and writers in *Revoliutsionnyi Vostok* had to find words of praise for both Gandhi and Chiang Kai-shek.

Another good example of the new shift was Iraq. In 1934, the Iraqi "national reformists" had been declared "the main obstacle to the development of the workers' movement." In 1937, the Iraqi government composed of the same "national reformists" was extolled for expressing the national aspirations of the Arab people.

Soviet Orientalists adapted themselves to the new situation with comparative swiftness, for tendering the hand of friendship to the national movements of the East was far easier than the truculent line of 1929—1934. But time was running out fast. During the 1929—1934 period, Soviet Oriental studies had become completely politicized and, in fact, were carried on mainly by Comintern personnel. Consequently, when the latter were decimated by the Great Purge of 1937, Eastern studies received a mortal blow and virtually ceased to exist in any form, either academic or propagandistic.

The "Association of Marxist-Orientalists" came to a sudden and unexplained end in 1937. The editors of *Revoliutsionnyi Vostok* vanished from view together with the ill-fated majority of Comintern officials, and publication ceased. Another periodical dealing with Far Eastern affairs, *Tikhii Okean* (The Pacific Ocean), lingered on until 1939, but then it expired, too.

Naturally, it was the official Communist spokesmen and propagandists who fared worst of all in the 1937-38 purges. Not a single one seems to have survived, and none has reappeared since the recent revival of Soviet Oriental studies. On the other hand, the academicians who had not meddled in politics despite all prodding fared considerably better. Many of them have lived to play a prominent part in the revival.

Between 1938 and 1948, there were no publications worth mentioning in the field of contemporary Eastern studies. Even comment in the press and radio was most cursory. Research institutions such as the Institute of Eastern Studies of the Academy of Sciences, the Oriental Institutes of Moscow and Leningrad Universities, and the Eastern Faculty of the Central Asian University in Tashkent (specializing in the Middle East and Southeast Asia) continued to function in a restricted way. But their members preferred the relative security of the Middle Ages, or even more remote periods, to the treacherous ground of more recent eras.

The prolonged effacement of contemporary Eastern studies had another important cause in the temporary submersion of interest in Asian affairs and Soviet preoccupation with Europe throughout the period of World War II. By 1948, the postwar polarization of most of the world into two hostile camps and the brightening prospects for communism in the Far East injected new life into Soviet Asiatic policy. However, the revival of smoldering Soviet designs in Asia did not produce an immediate rebirth of Soviet Eastern studies. The period from 1948 to 1954 witnessed only the barest beginning of such a revival.

The initial sign was the publication in 1950 of a series of essays under the title *Uchenye Zapiski Instituta Vostokovedeniia* (Learned Papers of the Institute of Eastern Studies). In 1953 the Institute published another series entitled *Kratkie Soobshcheniia Instituta Vostokovedeniia* (Short Communications of the Institute of Eastern Studies). Some of these papers dealt with philological topics, but others with contemporary Eastern political problems, and the authors were the leading Soviet authorities in their respective fields such as A. M. Dyakov for India, E. M. Zhukov for the Far East, and A. A. Guber for Indonesia.

The real comeback of Soviet Oriental studies got underway in 1954. It was marked by a decision to provide the Asian expert once more with a central organ of their own. After a period of preparation, the first issue of the new bimonthly, *Sovetskoe Vostokovedenie* (Soviet Eastern Studies), appeared in May 1955, declaring in its preface that it would deal inter alia with "questions of culture and ideology pertaining to the countries of the East" and would seek to "unmask reactionary ideologies which hamper the successful struggle of the masses for social liberation and national independence." The desire of the Eastern peoples to create an Asiatic "zone of peace" was also praised. While the new organ was still in preparation, a number of basic Eastern studies of more than ordinary interest appeared in print toward the close of 1954. Among them were the first volume of a projected four-volume work, *Noveishaia Istoriia Stran Zarubezhnovo Vostoka* (Most Modern History of the Countries of the Foreign East), issued by Moscow University.

In writing on topical affairs, however, the Eastern experts found themselves seriously hampered by a lack of official guidance indicating the party line which they should follow. Writers like G. B. Erenburg and E. M. Zhukov, on the Far East, V. B. Lutzki, A. F. Miller and L. Vatolina, on the Middle East, I. M. Reisner, A. M. Dyakov and A. A. Guber, on Southeast Asia, had been in the field long enough to harbor vivid recollections of the fate which had befallen

their teachers in the Great Purge. Small wonder that none of them was anxious to venture out on a limb by being too outspoken.

Some ideological guidance, it is true, had been given by Andrei Zhdanov, late member of the party Politburo, in 1947. At that time, Yevgeni Varga, the well-known Soviet economist, had been upbraided for voicing—among other things—the “preposterous” idea that Indian independence constituted a new political fact of real importance, which meant a basic change in international relations. “No change whatever” had been the official pronouncement then.

After Stalin's death, however, this line became progressively more anomalous as both the Soviet Union and Communist China began assiduously wooing India and other Asian countries. Soviet writers consequently took care to avoid offensive references to heads of state such as Prime Minister Nehru of India and President Soekarno of Indonesia; but otherwise their attitude toward leaders of the national movements in non-Communist Eastern countries remained decidedly unfriendly.

Thus, for example, the long-standing condemnation of Gandhi as an enemy of the class struggle and mass revolution continued through the first part of 1955. Volume I of the *Most Modern History of the Countries of the Foreign East*, referred to above, repeatedly denounced him as a traitor to the national cause and even went so far as to describe Nehru's father as a most unsavory character, though it refrained from criticizing Nehru himself. On India Varga, too, showed signs of having digested the lesson of 1947. In a book published in the winter of 1953—54, he accused Indian socialist leaders (including the left-wing leader, Dr. Lohya) of being paid American spies, even mentioning the sums allegedly paid to them for their services.

Views expressed with regard to the Middle East followed the same pattern. Abdul Nasser's regime was strongly attacked as “anti-democratic” and “anti-patriotic” because of its agreement with Britain in July 1954 regarding Suez. The Muslim Brothers were denounced as imperialist tools despite the fact that the Egyptian Communists regarded them as allies.

The case against an over-indulgent appraisal of the Eastern national movements was put most succinctly, perhaps, by V. V. Balabushevich, writing on India. It had been quite wrong, he said, to consider the leftist heads of the Indian Congress in the 1930's, i.e., Nehru and Subhas Chandra Bose, as the real leaders of the leftist lower middle class and of the national revolutionary movement. Time and realities have helped to correct these mistaken notions, he added, acknowledging that he, too, had been guilty of too charitable a view in this regard.

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The persistence of the unfriendly line in Soviet Oriental studies may have been in conformity with the theory and past interpretation of Marxism-Leninism, but it certainly was far from conforming to the practical exigencies of Soviet foreign policy in 1954—55. The Bandung Conference of Asian-African Nations in April 1955 seemingly brought home the realization of this contradiction, for it was swiftly followed by ideological modifications of far-reaching importance.

The new reversal of the party line was heralded by an unsigned editorial published in the May issue of the CPSU theoretical organ, *Kommunist*. The editorial prefaced its discussion of policy by emphasizing that the growing importance of the Asian and African countries made a further expansion of Soviet Eastern studies abso-

lutely imperative. It complained further that the scant attention given to Oriental history and culture in the curricula of Soviet secondary schools and universities imposed a serious limitation on the development of needed Eastern experts.

The fraternity of Eastern experts was taxed in this connection with disregarding Lenin's observation that, in the bourgeois national movement of oppressed nations, there is always some “general democratic content which is unconditionally supported by communism.” However, since quotations to the contrary can just as easily be found in Lenin's, and especially Stalin's, writings, it is fairly obvious that the real error of the Orientalists lay in disregarding, not the circumstances of 1925 in the Eastern countries, but the exigencies of Soviet policy in the world situation of 1955.

The new approach obviously has far-reaching implications for Soviet Orientalology. It means, in effect, that the whole recent history of the East has to be rewritten. To take India as an example, it means that Gandhi, denounced as a traitor in Volume I of the *Most Modern History of the Countries of the Foreign East*, will have to be elevated, in later volumes yet to be published, to the role of patriot.

This rewriting of history, indeed, was begun without delay. The occasion was Prime Minister Nehru's visit to Moscow in June 1955, and those chosen for the task were, certainly not by pure coincidence, Balabushevich and Dyakov, the main culprits in the anti-Gandhi and anti-Congress campaign of the past. Jointly reviewing Nehru's books, *Discovery of India* (just published in Russian translation) in *Kommunist*, Balabushevich and Dyakov cited with evident approbation Nehru's affirmations that Gandhi's activities were the turning point of the Indian national liberation movement; that Gandhi deeply studied and understood the masses, spoke in a language which they understood, and thus was able to awaken and spur them on in the struggle for freedom.

The new Orientalist journal, *Sovetskoe Vostokovedenie*, also adjusted itself, though apparently somewhat half-heartedly, to the revised party line. A leading article in the second issue expressly acknowledged, for the first time, that it was the determined efforts of the national liberation movements which had wrung independence from the imperialist powers for such Asian countries as India, Burma, and Indonesia. Curiously enough, this implied admission that they had attained national sovereignty quite independently of Leninist doctrine was couched in an editorial on the importance of Lenin's ideas.

There are as yet only a few documents which sketch out the broad ideological outline to which Soviet studies will be expected to adhere in the new phase of Kremlin Eastern strategy. One is a highly illuminating article which appeared in the August 1955 (No. 9) issue of *Kommunist* under the title “*Novaia Azia*” (*New Asia*). In it non-Communist Asia, excluding the few remaining colonies, is divided into “independent countries”—India, Burma, Indonesia—and countries described as only “formally independent”, such as Pakistan, Turkey and the Philippines. The position of foreign capital is acknowledged to be still strong in the “independent” group owing to “specific historical conditions,” but it is suggested that they, too, may somehow be able to free themselves from Western economic tutelage.

The “formally independent” (that is, dependent) countries are treated with sorrow rather than with anger. Their “militarization” is deprecated as quite unnecessary because nobody threatens them. Time and again, the Asian peoples as a whole are pictured as “desiring to achieve one and the same goal—to guarantee their national indepen-

LESSENING THE STRAIN: A BEGINNING

By John Kingsley

There can be little doubt that the measures taken by the U.K. Government to lessen the strain on the British economy are now showing results. Sterling has been firm since October, the reserves have steadily increased since the beginning of this year and the trade gap is narrower than a year ago. This is an encouraging advance in the fight against inflation. But neither the Government nor industry is indulging in premature self-satisfaction. They are aware that the recent improvement is only a beginning and that further considerable efforts are required to maintain the U.K.'s share in world trade, to achieve a large surplus

dence and peaceful development, and to realize a decisive improvement of their old cultures."

The old basic division between Communist and non-Communist countries is glossed over. In the latter, the once-abhorred landowners are now acknowledged to be by no means all reactionaries; for instance, in Indochina and India, "a considerable proportion of the landowners did not support the colonizers but joined the national movement from the very beginning." Also, "the Communist parties in these countries support all progressive measures taken by the national government."

The new Communist tactical line of Asian unity in place of Communist exclusivity holds, for the USSR, great advantages which are too obvious to require discussion. But it entails difficulties and dangers as well.

There are the difficulties which it creates for the Communist parties in the non-Communist Asian countries now being courted by the USSR. Hitherto dedicated to the overthrow of the existing governments, these parties now find themselves reduced to the unaccustomed and less rabble-rousing role of a loyal opposition. There are also the difficulties which Soviet Orientalists face in rewriting most of their basic works.

The dangers lurk on the higher international political level. In the past, the Soviet Communists were wont to take a favorable view of most opposition movements in Asia and Africa as long as they remained in opposition; once they attained state power, they became constructivists and hence political enemies. From now on, however, the constructivists, too, are to be treated as friends—misguided, perhaps, but lost to salvation.

In all this, there is the distinct danger, for the Soviet Union, that the newly independent nations of Asia and Africa will prove really assiduous in pursuing independent policies; that they will try to play the USSR and the West against each other for their own interest—seeking "a rapprochement with the Soviet Union merely to strengthen their own position," the same accusation that was directed against Chiang Kai-shek and other Eastern nationalist leaders by Comintern writers in the early 1930's.

There are other risks and danger inherent in the new Soviet course, and it will be interesting to see how the re-energized Eastern experts of the USSR propose to exercise them. Their fifteen-year hibernation had its advantages, for they thus avoided the necessity of taking sides on all kinds of ticklish international issues. Now a new period has dawned, in which they will have to shoulder heavy responsibilities. They will have to walk the swaying tight-rope of the new party line—ever mindful of what may befall them, as it befell their predecessors, should there be a sudden shift in the Soviet political wind.

on the balance of payments, and to raise the reserves to a satisfactory level. The Government is, indeed, prepared to take further and even more severe anti-inflationary action if present measures do not prove sufficiently strong. These measures, the latest instalment of which was announced in the Budget, include an increased surplus in the Government accounts, a high bank rate, the credit squeeze and stringent restrictions on hire-purchase.

It is not really surprising that the prosperity which the U.K., as well as most other countries of Western Europe, have enjoyed since the end of 1952, has resulted in too rapid an expansion, in the appearance of excess demand and the manifestation of inflationary symptoms. In fact, it is not only the U.K. which is facing a renewed struggle against inflationary pressure. The issue is, however, probably more important for the U.K. than for other countries; for the U.K. carries two burdens, which can be easily overlooked in an assessment of its economy. They are overseas investment and a very high defence expenditure. As the Chancellor of the Exchequer recently reminded an audience of foreign journalists in London, "It does slow up a person's running pace a bit, if he has to carry two rifles, not one."

The U.K. has made in recent years a sizeable contribution to the financing of development projects overseas, particularly in the sterling area. For a long time, data has been lacking, but this gap in statistical information has now been remedied by the publication of new estimates which indicate that U.K. long-term overseas investment (less foreign long-term investment in the U.K., and excluding transactions between Governments) averaged £150 million to £175 million annually in the four years 1952 to 1955. This rate of investment is far ahead of that of any other nation including the U.S.A. if taken as a proportion of national income. According to a calculation given by Mr. Macmillan, the Chancellor of the Exchequer, U.S. long-term investment is less than 0.25 per cent of the national income, whereas the figure for the U.K. is about 1 per cent. Even if, in addition to investment, the burdens, which the U.K. carries in the form of grants, overseas military expenditure and interest on the North American loans, are included, these take a much larger share of the U.K.'s resources than do comparable obligations on the resources of the United States.

Although the U.K. has contributed to the financing of such major schemes as the Owen Falls hydro-electric project in Uganda, U.K. investment has not been concentrated on a few spectacular plans, but has been spread over a wide range of projects both in basic services and private industry. This applies both to the Colonies, which have taken about one half of the total U.K. overseas investment, and to the self-governing Commonwealth countries. Admittedly, U.K. foreign lending was smaller in 1955 than in the three preceding years, but one can forecast with reasonable certitude a future increase. If the U.K. is to continue to make its contribution to the financing of development in overseas countries and, at the same time, maintain a satisfactory rate of new home investment in order to maintain a competitive industrial output in the world market, savings by the country as a whole must be increased.

The increase in the budget surplus shows that the Government thinks that private saving must still be reinforced by public saving. But, as the Chancellor stressed in the Budget speech, it would be much better if the habit of

THE HONGKONG MINT AND THE COLONY'S CURRENCY PROBLEM

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PART I

When Sir Hercules Robinson arrived as Governor, in 1859, the currency problem was acknowledged to be acute and some action had become clearly necessary. The attempt to create in the Colony a coinage system, similar to that in Britain and acceptable by its own intrinsic soundness, broke down. The chief reason was that the Chinese had little use for coins as such. They had their prejudices, for example, for many years they preferred Spanish dollars; but these latter were relatively scarce, and their place was taken by Mexican dollars which were in plentiful supply and gradually lost their original strangeness. But generally, the Chinese preferred to pass coins as if they were lumps of silver. Chinese habits were decisive in the commercial world because the colony was dependent on the China market. The big European merchant houses employed shroffs to handle all the silver used in commercial transactions, and amongst themselves, the shroffs used those methods which experience had taught them to rely on. There were other reasons for the failure; the parities fixed for the various coins did not accord with their market value, and gold coins virtually disappeared, and so caused the failure of the attempt to impose a gold standard on the colony.

In our issues of April 19 and 26, Nos. 16 and 17, a historic report on Hongkong's currency problem was published.

saving could be so rebuilt that he could reduce the burden of taxation "without risking a serious degree of increased consumption and a fresh inflationary crisis."

In order to increase private saving, new issues of Saving Certificates and National Savings Certificates with really attractive yields are being issued and the first £15 of interest on deposits in the Post Office Savings Bank or the Ordinary Department of a Trustee Savings Bank is no longer subject to income tax. Furthermore, a new incentive to savings will be created by the introduction of Premium Bonds, a type of security successfully used in some other countries, but hitherto unknown in the U.K.

The high level of taxation in the U.K., which necessarily impedes private saving, is only partly due to the need for public saving. A high rate of taxation is, indeed, needed in order to finance public expenditure, which takes a higher percentage of the gross national product in the U.K. than in any other European country. But as OEEC figures show, this is due not to extravagance in civil expenditure, (the rate of which corresponds to the average of all Western European countries) but to the high rate of defence expenditure. In 1954 (the latest year, for which figures are available), the U.K. devoted 9 per cent of its gross national product to defence expenditure compared with an average of 5 per cent for all OEEC countries. As Mr. Macmillan has pointed out, a reduction in U.K. defence expenditure to 5 per cent would mean a fall from over £1,500 million to £800 million, setting £700 million free for a reduction in taxation and the financing of new investments. Of course, a cut of this magnitude is neither contemplated nor possible, but it shows the burden imposed on the U.K. by "carrying its second rifle."

Sir John Bowring had made many suggestions for reform; he had made his early reputation as an economist, but the home government had lost confidence in him, and it had been left to Sir Hercules Robinson to attempt to bring order out of chaos. Reform was more urgent too because the Treaty of Tientsin of 1858, and the Convention of Peking of 1860 by which peace with China had been restored and more treaty ports opened, were expected to result in much increased trade.

In November 1860, Sir George Cornewall Lewis, acting for the Colonial Secretary of State, the Duke of Newcastle, sent a long dispatch on the current question which, he said, "had long attracted attention". Reform had long been necessary, and he laid down two principles (1) that the public accounts should be kept in dollars and cents and (2) that silver alone should be the basis. He proposed that the proclamation of 1844 should be withdrawn, and replaced by one making the silver dollar legal tender. All other coins would then be left to find their own value in the market. He thought that if such a change were made, two problems would be created (1) ought the holders of sovereigns to be compensated for any losses in the value of the coins they held, or be indemnified for any loss if obligations which were before dischargeable in gold, were now made dischargeable in dollars? (2) what coins should be legal tender for sums of less than a dollar? Robinson was asked to give his views on the Hongkong currency with the object of setting this currency "on a footing of permanent convenience, not favouring one section against another". The governor was further specifically asked whether the Chinese would accept silver coin at any other value than its intrinsic value.

Robinson replied in a confidential dispatch dated March 9th 1861. He said the 1844 proclamation had long been a dead letter because it was impossible to regulate the colony's currency in isolation from that of China. All commercial accounts were kept in dollars, at 717 taels weight or 415.74 grains to the dollar. Nearly all public revenue was paid in dollars, for example, in 1860, out of a total revenue of £94,000, only £1,600 had been received in sterling mostly in the form of small coin since there were no other coins for fractional parts of a dollar. All contracts were made in dollars, and so he thought that the question of the payment of an indemnity did not arise. Robinson proposed that the 1844 proclamation be revoked and that the dollars of Spain, Mexico and the South American Republics should be legal tender, and that sterling contracts should be convertible to dollar contracts at 4/2 to the dollar. With regard to fractional parts of a dollar, the governor reported that small British and foreign coins circulated, but that the Chinese used broken dollars by weight, and copper cash, with the result that there was little demand for small silver coins; the Manager of the Oriental Bank had stated that £5 a month settled all his demands for small silver. A gang of forgers in Kowloon had flooded the colony with forged copper cash, and the habit had grown up of accepting strings of cash if not more than one third were forged. The value of the cash had fallen from 970

to 1,200 to the dollar. Robinson suggested that the government should coin and issue cash at 1,000 to the dollar, the value of the coin being adjusted to defray the cost of its transport from England. If the home government agreed to have this coin, then he thought 20 million would be required. It was calculated that this number would weigh 74 tons and the Colonial Office feared it would be too expensive to send this out from England. Robinson also suggested a bronze coin of one cent, to be legal tender to the maximum of one dollar, and a silver 10 cent piece, and he argued that since, generally, money in Hongkong was some 7% above the value of money in England, minting in England would be economic.

Robinson also proposed that the public accounts should be kept in dollars and cents in place of sterling. There was little difficulty about this; the home government readily agreed, and on 1st July 1862 the change was made. Regarding the currency, there was much discussion between the Treasury and the Royal Mint, and eventually the Treasury decided that the Mexican dollar should be legal tender for amounts of \$5 and upwards, and a new bronze cent for amounts up to \$5. It decided to postpone the coining of cash and of a silver 10 cent piece. The mint disliked the copper cash and had advised against it on the ground that it could be too easily copied, and that its value was so low that the cost of shipment to the colony made the coin uneconomic. The master of the mint thought that if cash were essential, they should be of copper as this would make debasement easier to detect; he suggested that a small Spanish silver coin should be tried instead of minting a silver 10 cent piece. In May 1862, Robinson criticised these suggestions; he thought that cash were essential as the Chinese used them for most purposes, and he thought great

difficulty would arise if a definite relationship between the cash and the bronze one cent piece were not provided for. Robinson held to his original view that the dollar of Spain, Mexico and the South American Republics, and not only that of Mexico, should be legal tender. The master of the Royal mint had argued against the silver 10 cent piece on the ground that a silver coin should be of at least 90% fineness, which was uneconomic, but Robinson argued that such a coin would be passed by weight and not as a coin and that its face value must exceed its intrinsic value by a greater margin to stop this.

Robinson asked the Chamber of Commerce to appoint a committee to advise on the question of currency, and this committee recommended that the cash was the important coin, and should be the basis of the currency, and that other coins could be introduced gradually. A specimen cash, cast by the mint in London had been sent out, and was regarded by the committee as acceptable though it was lighter than the Chinese cash.

In July 1862 Robinson left on home leave, and he was able to advocate his views in person with the result that Mercer, the Officer Administering the Government, was ordered to hold up the arrangements to make dollars and cents the official currency, until further instructions had been received. Robinson got his own way, and in January 1863, the Duke of Newcastle agreed to mint cash and silver 10 cent pieces as well as the bronze one cent piece. The new silver 10 cent coins were to have 20% alloy to prevent melting down, and meet the cost of coining. It was also agreed that all British silver and copper coins should be exchanged at 4/2 to the dollar. In May 1863, the new currency proclamation was issued, giving details of the new

FOREIGN INVESTMENTS IN THE PHILIPPINES

By Cesar M. Lorenzo

(President, Chamber of Commerce of the Philippines)

The Laurel-Langley Agreement provides a basis for a structural change in the economy so that a better balance between agriculture and manufacturing, between production and consumption, and between imports and exports can be assured. It is also expected to bring about increased output, employment, and real income and increased standard of living. To achieve this goal, the economy should be able to take advantage of the 20-year period of readjustment provided for in the Agreement, especially in the following three important respects:

1. It should be able to produce enough new wealth and earn enough foreign exchange so that it can meet the increasing requirements for foreign payments from year to year.
2. It should give greater attention to the diversification of agricultural output so that it can produce new crops which can be sold in foreign markets as well as pro-

duce semi-processed goods and finished articles wherever feasible. This production should be increased for both domestic and foreign markets, thereby creating new employment opportunities.

3. It should provide sufficient opportunity and encouragement to strengthen and improve the commerce and industry of the nation so that profits earned therefrom can remain within the country and be used to finance further economic development.

Foreign capital has not come into the country in any appreciable amount in the past years, despite efforts of the government and private business. The pace of economic development, particularly the industrial aspect, has not been as rapid as expected by way of increasing the national output and providing employment opportunities. In order to hasten and increase the present rate of economic development, foreign investments are needed.

The Philippines is an agricultural country with extensive supplemental household industries. Most families on the farms make their living by combining farming with one or more activities such as fishing, manufacturing and cottage industries. About 77 per cent of the people depend on agriculture for their livelihood, and this includes those who are engaged in mining, fishing and forestry. These industries contribute 43 per cent of the national income, account for 98 per cent of the total value of Philippine exports, and employ about 71 per cent of labor. These figures on the predominance of agriculture are however a bit misleading. In spite of the great potential for the development of the country's rich natural resources, the standard of living is low. This is mainly because of the low level of productivity and limited industrial activities, resulting in a low per capita income. Emphasis is still on the few principal crops for export mainly to the United States. While production has steadily increased, population on the other hand continued to rise at a faster rate. The failure of the economy to expand at an accelerated rate sufficient to absorb growing labor caused the present problem of unemployment. Investment rate and the formation of capital have not sufficiently generated employment opportunities to absorb the unemployed and the yearly additional new workers looking for work as a result of increased population. Despite a general reduction in the prices of consumers goods, the purchasing power of the population is still low.

Since the bulk of foreign investors presently are Americans, we shall discuss them principally as typical of foreign investments. In general the conditions which are considered favorable by foreign private investors in seeking to put new capital into the Philippines are:

1. The Philippine economy has been stable since 1949.
2. The nation adheres to the principle of free private enterprise.
3. There are tax incentives and a high level of profits accruing to investors.
4. The (co-equal) "national treatment" of American firms in developing natural resources and public utilities.

These factors have been cited as favorable environment for American private investors who might be interested in the Philippines, as cited in a study of investment possibilities in the country which was released by the United States Bureau of Foreign and Domestic Commerce. At the same time, it listed the following disadvantages to American private investors.

1. Restrictions on remittances of profits or capital transfers, tax on foreign exchange and import controls.
- 2.

(To be concluded)

Serious shortages of power, fuel and transportation. 3. Lack of a "clear-cut, long-range policy regarding governmental activities in industry and trade" which contributes to "uncertainties confronting potential investors." 4. "Frequent changes" in rules and regulations concerning foreign investment and a "growing nationalistic sentiment" which "appears inconsistent with the expressed policy" of welcoming foreign investors.

The accelerated deterioration in the balance of payments position between 1945 and 1949 ushered into the Philippines an era of exchange and trade controls. This contemporary form of economic regimentation brought in its wake complicated and vexing problems. But they also brought some advantages to the economy. The growth of investments in industries which produce and conserve the dollar resources is one of the results of controls. The concomitant problem of servicing these investments, particularly foreign investments in the light of control regulations, is another.

Since 1949, a policy has been evolved to encourage the establishment of new and necessary industries. This policy obviously implied the determination of the industries that are essential and those that are not, in order to segregate those deserving of exchange allocations. In this task, the Central Bank has been guided by its commodity list and has given weight to the decision of the Secretary of Finance who passes upon applications for exemptions from all internal revenue taxes of investors in new and necessary industries.

In line with this policy, the establishment of factories which produce non-essential and luxury goods is usually looked upon with disfavor. Application for the establishment of such type of industry is invariably given a very low rating. When a large percentage of local raw materials will go into production, the application is given more favorable consideration.

The problems of a foreign investor are not solved with the approval of his application to put up a factory. He has to consider how his profits, dividends, royalties, etc., will be remitted to him, and eventually, how his capital investment can be retired.

Remittances by new industries. Sizeable investments have been made since 1949 by foreign businessmen in the drug, paint, gasoline and oil, aluminum, transportation assembly and steel industries. Side by side with this healthy development, a formula for remitting profits and dividends to non-resident investors abroad has been devised. The underlying principle is for investors to demonstrate, first of all, that the operating results of their new industries justify the remittance. The total remittable amount must not exceed current net profits realized during the year for which the profits are being transferred. As a general rule, the remittable amount is equivalent to 10 per cent of the current net profits (after taxes), or 10 per cent of the paid-up capital outstanding as of the date of the organization, whichever is higher. In addition, another 30 per cent of the foreign participation in the depreciated fixed assets of the industry as of the date of the organization, or 30 per cent of the foreign participation in the paid-up capital as of the date of organization, whichever is higher, is likewise allowed. There are some notable exceptions to this general rule, however, considering the essentiality of the industry and the need for providing an incentive. Thus, the Central Bank, in the case of "A" Company, allowed remittance of profits and/or dividends equivalent to 30 per cent of the net profits, plus 10 per cent of the net sales of the products manufactured here for royalties. "B" Company, on the other hand, is allowed to transfer profits to the extent of 30 per cent of the capital investment, plus 10 per cent of the wholesale value of the sales of products manufactured here corresponding to royalties. This com-

pany is barred, however, from remitting 10 per cent of the net profits provided by exchange control regulations. "C" Company is a very distinct case. The refinery is treated as a separate entity for purposes of ascertaining the remittable amount of profits and dividends. It is allowed to transfer 10 per cent of the current net profits, or 10 per cent of the paid-up capital stock as of the date of completion of the refinery project, whichever is higher, plus 30 per cent of the foreign participation in the capital stock outstanding as of the date of the completion of the refinery. The maximum is limited to the amount of the current net profits for the year for which the profits are being remitted.

Foreign capital investment base. Foreign participation in the capital of a new and necessary industry may take any of the following: (1) cash dollar inward remittances; (2) capital equipment imported under no-dollar remittances; (3) imported intangibles, such as patents, trade marks, etc.; and (4) a combination of any of the three, as the case usually is. Raw materials and/or finished consumer goods are never considered part of any capital investment base. For the purpose of including capital equipment in the investment base, the c.i.f. value is used as a basis. In the case of intangibles, there is no fixed rule upon which the Central Bank can rely in reckoning just how much of its value will constitute part of the total foreign investment base. The percentage of the value of intangibles to the total foreign capital investment base of "D" Company, for instance, was 11.1 per cent whereas in the case of "E" Company, the percentage was 66.67. These go to prove that each case has to be treated individually according to their individual merits.

Rental of capital equipment. In some cases, manufacturers of capital equipment will not allow title to pass to the investor through direct purchase, preferring instead to lease the machinery. In this event, the Central Bank allows a remittance equivalent to not more than 10 per cent of the c.i.f. value to pay for annual rent, with the cost of repairs and replacement of spare parts chargeable to the lessee's account. Upon termination of the contract, the equipment may be re-exported, subject to regulations currently in force, unless their retention is adjudged to be of vital importance to Philippine economic development by the Export Control authorities, by virtue of Republic Act No. 613.

Raw materials. Imports of raw materials by industries are generally limited to a maximum of 30 per cent of the total value of the raw materials that go into the manufacture of the finished product. Excepted from this rule are industries which, by their establishment, will lead to the development of the country's natural resources, or, when there are other equally strong and justifiable reasons in support of the manufacture of any commodity which the proposed industry intends to produce. In practical application, there is no hard and fast rule adopted by the Central Bank for the accurate determination of the amount of raw materials that can be imported. Neither is there a fixed rule for determining the proportion of the imported raw materials to the total value of the raw materials used. Nevertheless, Central Bank Regulation No. 10 fixes a maximum of 60 per cent as the ratio of the imported raw materials to the prime cost for non-essential industries.

The case of "D" Company, previously cited, illustrates a case in which the Central Bank approved the importation of all raw materials that go into the manufacture of steel drums inasmuch as the establishment of this industry would involve a substantial savings in foreign exchange. The case of "C" Company is another. Although all the raw materials are to be imported, the Central Bank was convinced that the establishment of an oil refinery plant would mean a conservation of dollar resources, and more

important still, it would answer the country's defense needs in case of emergency. Another decision of the Central Bank on the importation of raw materials, supplies and equipment in the case of "F" Company and of "G" Company limits such imports to actual requirements only.

Labor requirements. Existing rules allow new industries to engage the services of foreign technicians where none are available locally, and this is limited to the actual needs of the particular industry. Foreign technicians so engaged are given preferential treatment by the Central Bank which allows them to remit up to 50 per cent of their basic monthly salaries. In cases where the foreign technician is assured of certain sums intended to meet his peso requirements (aside from his monthly salary), the remittable rate may even exceed 50 per cent. This is specially true when these technicians are engaged under a short-term special contract similar to those of the "H" Company and the "I" Company.

Royalties for patents, trade marks, formulae, etc. Where the Central Bank has allowed the inclusion of intangibles, such as patents, trade marks, formulae and technical knowhow in the capital investment base of a new firm, the payment of royalties for the use of these intangibles has been denied. In those cases where the remittance of royalties was allowed, some conditions were imposed. In the case of the "A" Company, previously cited, for instance, the remittance of royalties was allowed in an amount equivalent to a fixed rate of 10 per cent of the net sales of the products manufactured in the Philippines. On the other hand, in the case of "J" Company, royalties amounting to 10 per cent of the wholesale value of the products sold, which should not exceed \$58,000 (representing 10 per cent of the total value of importation of these products in 1950), was allowed to be remitted abroad. Again, in the case of the "K" Company, the remittance of royalties was allowed in an amount equivalent to 10 per cent of the gross sales.

These specific instances demonstrate again the flexibility of the policy currently observed for the remittance of royalties for the use of intangibles by industries now in operation. As a rule, therefore, it would be best to submit the subject before the Central Bank for judgment according to the merits of each particular case.

Service agreement. Generally, whenever the services to be performed by the foreign investors of the new company have been included in the foreign capital investment base, the remittance to pay such services is not permitted, with the exception of a few instances. Such agreements may cover services to procure raw materials to be utilized by the industry, payment of which is to be made in the form of a buying commission.

The contract of the "L" Company with a corporation in the United States is a case in point where the Central Bank approved the payment of buying commissions ranging from 3 per cent to 10 per cent of the cost of raw materials, supplies and equipment as follows: (a) For fabric and synthetic rubber—3 per cent of the purchase price. (b) For compounding ingredients, pigments and wire—3 per cent of the purchase price for orders of \$5,000 or more. (c) For miscellaneous materials, supplies and equipment—5 per cent on orders in excess of \$500 and 10 per cent on orders less than \$500.

But the Central Bank refused to grant this kind of concession to "E" Company when it was shown that the parties who will procure raw materials, supplies and equipment turned out to be the stockholders of the new company. Furthermore, it appeared that such services were dispensable because after the receipt of the initial shipment of raw materials, subsequent shipments could be made on a similar basis. The second type of service agreement involves the payment of laboratory and research fees to a

non-resident which may be determined on the basis of the number of units produced, of a fixed amount to be paid monthly, or of a certain percentage of the total value of the net sales.

Retirement of capital investment. Capital invested in the Philippines after December 9, 1949, by non-residents may be remitted abroad subject to the approval of the Central Bank. Investments in certain approved industries may be withdrawn upon application in accordance with a schedule of amortization of such capital investments. It is limited to the visible dollar investments, and the value of the approved visible dollar investment shall be exclusive of the value of intangible assets. One form of retiring capital investment which the Central Bank has already approved is similar in its operation to a loan. The system permits the transfer of the total sum in 10 equal annual installments for a period of 10 years from and after the date of the completion of the project, together with the interest thereon at the rate of 4 per cent annually. The Central Bank has also enunciated the policy of allowing the withdrawal of foreign investments after a lapse of 5 years from the date of the actual operation of the business at the rate of 20 per cent per annum.

* * * *

Up to the present time the government does not have a categorical and clear-up policy on the treatment of foreign investments in the general framework of the government's industrialization program. This was also the blunt declaration of the chairman of the National Economic Council in late 1955. A study of foreign investment possibilities in the Philippines by the United States Bureau of Foreign and Domestic Commerce also reveals that there is a lack of a clear cut, long-range policy regarding economic development, which contributes to uncertainties that are not favorable for attracting foreign investments into the Philippines.

Another factor which has discouraged foreign investors is, as the United States Bureau had stated, the frequent changes in the rules and regulations which have increased the degrees of business uncertainty in the Philippines. These frequent changes and uncertainties are doing more harm than good to our general economic development and to the investment climate that our leaders desire to foster for the easy flow of foreign investments into the country.

It is obvious that in order to stimulate foreign private investors to help hasten our program of economic development, our rules, regulations and policies, whatever they may be, should be stable for the adequate guidance of every businessman in the Philippines.

Another factor which has deterred foreign investors in deciding to participate in our economic development was the unsettled Japanese reparations issue. It is natural for any careful foreign investor to wait until definite settlement of the Japanese reparations is made, and there has been indication of the specific application of the capital goods which are being made part of the reparations payments to the Philippines. Considering that there will be \$500 million worth of capital goods as reparation payments, the impact on the national economy and their effects on the economic development program cannot be ignored. It is evident that a foreign investor would want to see first definite plans and programs in various industries to which such payments will be applied. In addition, the contemplated \$250 million worth of development loans for various economic projects will cause foreign private investors to watch and see in what specific fields of industries these will be used.

Despite the above mentioned factors, which are unfavorable to an appropriate foreign investment climate in

ECONOMIC REPORTS FROM THE PHILIPPINES

A rise of \$24,000,000 in foreign exchange reserves since the end of last year was noted by Central Bank Gov., Miguel Cuaderno. The reserves had dropped to \$209,000,000 at the end of 1955 but had now recovered to around \$233,000,000. Cuaderno ascribed the improvement to firm enforcement of the President's policy of limiting dollar exchange for non-essential imports. He indicated that the situation had also been helped by the acquisition of new funds, such as the recently granted Export-Import Bank loan of \$65,000,000. Two officials of the Export-Import Bank set up arrangements for the release of \$65,000,000 loan to the Philippine government and Philippine private enterprises. Among the proposed projects for using the money were new production facilities for fertilizers, chemicals, textiles, plywood and minerals. The Central Bank and the N.E.C. are preparing regulations that will govern the local administration of the E-I credits.

The Marcelo Steel Corp. is setting new records in the production of steel bars. Since the start of operations early in 1952, the firm has stabilized the price of its finished steel at from P390 to P430 per ton, depending on size. This is from 22% to 32% lower than the cost of imported steel, which at present is P412 per ton, plus an additional 25% on the average for importers' expenses and profit.

The National Economic Council has begun the study of a new five-year economic plan to cover the period 1957-61. The Council hopes to have the plan ready for legislative action at the special session of Congress this year.

U.S. trade with the Philippines:

| | 1953 | 1954 | 1955 |
|---|---------------|---------------|---------------|
| U.S. exports, including reexports, to Philippines | \$352,000,000 | \$326,000,000 | \$339,000,000 |
| U.S. imports from Philippines | 277,000,000 | 262,000,000 | 251,000,000 |
| Balance of exports over imports | 75,000,000 | 64,000,000 | 88,000,000 |

Insurance in force in the Philippine American Life Insurance Co. has exceeded P425,000,000, and assets have climbed to P52,000,000, during the eight years of the company's operation.

The release of P1,000,000 to further a cotton-growing project in Mindanao was approved by Pres. Magsaysay. The project, to be under the direction of the government's National Development Corp., will undertake the development of some 5,000 acres for cotton culture.

A survey of starch and casava flour manufacturing activities in Mindanao reveals that starch manufacturing is

thriving, but the casava flour enterprise is doing poorly. The survey was completed by officials of the Industrial Development Center. The casava flour makers have run up against a number of tough technical problems, chiefly in the drying and separation processes.

The IDC team also inspected several ramie plantations and ramie decorticating plants in Davao. They found that the ramie industry there was being hampered by too great dependence upon manual labor in harvesting and by inefficient Japanese equipment used in the decorticating process.

P123,000,000 for irrigation system throughout the country has been programmed for completion within the next two years. Sixty irrigation projects will serve farmers in 300 communities.

Firestone Tire and Rubber Co. will build a \$5,300,000 tire and tube factory in the Philippines. The company also plans for a 1,000-acre rubber plantation in the islands. By producing tires locally, Firestone will be better able to service the 115,000 motor vehicles in the Philippines, as well as the many thousands of new cars and trucks being assembled and imported annually.

Pres. Magsaysay approved two Department of Commerce administrative orders designed to improve the country's export trade in hats and hemp and canton rugs and squares. The order would set up a system of inspection to promote high standards of quality in such of these products as are designed for export. Low quality hats and rugs will be kept off the foreign market.

The government's National Rice and Corn Corp. was in favor of allowing the exportation of certain fancy varieties of Philippine rice in order to build up an export market for this product in anticipation of the fact that the country should shortly become self-sufficient in rice and will have a surplus that could be marketed abroad. Naric officials indicated they may grant permission for the barter of 5,000 tons of rice to Hongkong, with the stipulation that the goods to be received in return should consist largely of those needed by the rice industry.

The statistical office of the National Economic Council revealed its program of projects planned for 1956-57. The program will provide up-to-date data on population, manpower supply and demand, and economic activities in the country. It will also seek to establish reporting systems to maintain such data on a current basis. Specific projects during the year will include a households survey, an income and expenditure survey in October to determine national levels of consumption, a labor force survey in February of 1957; and a more extensive households survey in May of 1957.

Chester Baird, president of the San Jose Oil Co., declared that the possibility of striking oil in the Philippines is "very strong". The Philippines will soon enter an era of prosperity unprecedented in the history of the nation. Baird said: "We have complete faith in the fact that we will strike oil in the Philippines."

Copper production in the Philippines this year will probably more than double the output of the last several years. Copper will very likely become one of the country's first five or six leading exports this year or next, replacing both iron ore and chrome ore in rank, and also going ahead of pineapples and desiccated coconut. Copper already replaced leaf tobacco as the tenth leading export, following shipment of P11,000,000 worth of copper concentrates last year as against P5,000,000 worth of tobacco. In 1954 copper shipments were valued at only P2,500,000, as compared to tobacco shipments of over P7,000,000.

JAPANESE MIGRATION

By Sung Sui Lieng

The population problem which confronts the Japanese people has in the last few years received world wide attention. Some measures have already been taken to relieve Japan of the population pressure by permitting Japanese emigrants to enter the United States and South America. However Japanese migration to these regions in the last few years had not been considerable. This is partly due to the fact that the Japanese government is rather restricted in its choice of emigrants, only outstanding emigrants who conform to the wishes of the recipient country are permitted to leave Japan. It is also partly due to the fact that there is a lack of funds to finance large scale movements of people to far countries.

Japan did not really feel a population pressure until the late nineteen-twenties' though its population had increased very rapidly since 1890. The fact that a remarkable economic expansion had taken place in Japan during the period 1896 to 1926 had enabled Japan to support a rapidly growing population at rising standards of living. The population problem was therefore not so acute in this period. Besides, the First World War also served as a tremendous stimulus to industrial growth; easy credit and high dividend policies and earthquake reconstruction activities further gave rise to a high degree of investment, and a rapid industrial and commercial expansion continued until 1926. The rising standards of living enabled the already rapidly growing population to expand further. People were more in a position to get married and bring up children than ever before. But rapid increase in the birth rate (the excess of births being above 10) did not produce a strain on Japan's economy immediately; its effects were felt only late in the twenties' when economic activities in Japan began to decline. By this time, the large number of children had grown up to be a large army of labourers who were in need of employment. This gave rise to a labour problem. It was at this moment that the population pressure was most felt. The desire to relieve the country of its population pressure found expression in the government's attempts to encourage emigration; it also found expression in the inroads the Japanese made into Manchuria and the coastal provinces of China in the thirties'. The Japanese migration has become an international problem only in the last two or three decades.

HISTORICAL SURVEY

The first Japanese emigrants were the 153 contract labourers who in 1868 went to Hawaii to work on the sugar plantation. However, Japanese going abroad in the late nineteenth century were very few, and there was no sign of any considerable increase. By 1889, Japanese staying abroad totalled only 35,000. It was not until the beginning of the twentieth century that any large scale movement of Japanese to foreign countries began. They went to Korea, Kwantung, Karafuto, Taiwan, Manchuria, South-east Asia, Peru, Brazil, Philippines, Hawaii, the United States and Canada. In short, they migrated to the regions round the Pacific Ocean. In 1900, it was estimated that there were approximately 230,000 Japanese abroad. In 1919, the number of Japanese emigrants registered a peak

of 450,000. This number showed a decrease in the next decade; it registered only 330,000. But in the next ten years, it increased very rapidly. In 1940, the total of Japanese residing abroad was 1,696,130 of which 1,185,026 were in China and Manchuria.

During the Second World War, the number of Japanese going abroad must have been enormous, because after the Japan's surrender in 1945, 6,250,000 were reported to have been repatriated. This figure was about 5 times bigger than that of 1940 but most of the people who went abroad during the War were soldiers.

Postwar Japanese emigration was negligible in comparison with the period immediately before the Second World War. In 1952, 54 Japanese went to the Amazon region in Brazil but the Brazilian Government has shown willingness to permit larger immigration of the Japanese people. It authorised two Japanese residents in Brazil to settle 9000 families, 5000 of which are to be in the Amazon region and 4000 in Central and Southern area of Brazil. Also, as a result of the revision in 1952 of the US Citizenship and Immigration Laws, 185 Japanese are allowed to enter the United States each year.

The short history of Japanese emigration can be divided into four phases:— (1) before 1900, the employment-seeking period; (2) between 1900 and 1925, industrial expansion and market-seeking period; (3) between 1926-1945, an Empire building period; and (4) after 1945 "planned emigration" period. Each phase was characterized by different motives behind it, and each phase created somewhat different effects on the economy of the countries in which the Japanese emigrants were admitted, and on the economy of Japan itself.

Before 1900, the number of Japanese going abroad was negligible. The people who went abroad at that time were mainly job or employment seekers, who believed that employment abroad might give a better income and prospect than in Japan. Figures of population in this period show that population pressure then, if any, was not serious. Between 1720 and 1846, the Japanese population fluctuated between 25 million and 27 million; this indicates an almost stationary population. Figures between 1846 and 1871 are not available. But the figure in 1872 stands at 34 million, indicating that between 1846 and 1871, Japan's population increased slightly. Between 1872 and 1900, the population increased very slowly. In 1900, Japan had a population of approximately 44 million. This slow increase in her population could not have put a strain on Japan's economy, had industrialization taken place in Japan then. But, with its limited cultivated areas and limited resources, the increase of population then must have exerted some pressure on her economy. In 1868, the first Japanese emigrants went to Hawaii to work on the sugar plantations. Later, others went to California. For twenty years, the number of Japanese going abroad had not shown any considerable increase, mainly because there had not been a shortage of employment opportunities in Japan, and partly because the Japanese were not sure of the prospects which awaited them in foreign lands. By 1889, less than 40,000 Japanese had gone abroad. In the next ten years, between 1890 and 1899, however, the number of Japanese people going abroad showed a great increase. By the end of this period more than 200,000 Japanese had emigrated. However, this is no

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indication that population pressure began to be felt in Japan from 1890 onward. Attention must be paid to the fact that the majority of the emigrants went to Hawaii and the United States. The pioneers who went to these places in the seventies' and eighties' had shown to the people in Japan that there were better employment opportunities over there. These pioneers also helped the new comers to solve many problems which confronted the new immigrants. Statistics show that in 1904, about 65,000 Japanese lived in Hawaii and about 48,000 lived in the United States. Japanese emigrants living in other areas, including Manchuria, Brazil, China, Philippines, Canada, Peru, added up to only 20,000. Had Japan suffered from a population pressure and a shortage of employment opportunities then, the geographical proximity between Japan and Manchuria would have brought the mass of Japanese over to the mainland; but, as is indicated by the figure, the total number of Japanese living in China and Manchuria in 1904 was only 8,550. This clearly shows that employment opportunities on the mainland were not attractive to the Japanese. While the cheap Chinese and Korean labour competed and brought wages down to a very low level, the people in Japan actually enjoyed a comparatively higher standard of living. To seek jobs on the mainland would mean to bring down their own standard of living, because their migration over to the mainland would mean an increase in the quantity of labour on the latter; this would intensify the degree of competition, and would further bring down the level of wages. Thus to speak of a population pressure in Japan in those days would necessarily imply a worse population problem on the mainland. Japanese emigration before 1900 therefore was motivated by job- or employment-seeking. Wherever promised a good living, the Japanese pioneers would have a try at it. When the pioneers were successful and the future was promising others would follow. Economic pressure in Japan could not have been great in this period, at least not greater than that in China and Korea. It was rather the attraction of good jobs in Hawaii and in the United States which induced people to emigrate. After 1926, Japanese emigration began to increase. The direction of emigration had also changed. This time, the Japanese went to Manchuria and Southeast Asia. However, the Japanese had not stopped migrating to the United States and Hawaii entirely, but the percentage of increase of Japanese emigration to these two areas had been greatly reduced. The total number of Japanese who emigrated in 1904 was 138,591; in 1926, this number had increased to 640,099, more than 4 times as many as the number in 1904. In Manchuria, in 1904, there were only slightly more than a thousand Japanese but in 1926 the number had increased to nearly 200,000. This phenomenon seems to contradict the former explanation that Manchuria offered little scope of good employment opportunities. It were then other causes which motivated Japanese migration in this direction.

At the beginning of this century, Japan entered into the phase of rapid industrial development. The Japanese were conscious that to sustain such a large population with the limited area of arable land was impossible. Emigration could not be the solution, as experience in the past showed that emigration took only a small fraction of the population out of Japan. There was therefore a tendency to create more jobs within the country itself by introducing secondary and tertiary industries into the nation's economy. The outcome of this was that another type of emigrants came into existence. These belonged to the commercial class, and they infiltrated very quickly into Manchuria, China Proper, Siam, Malaya and Indonesia. These were the people who came out to seek a market for Japanese products. It should be noted that by this time, Western Europe and the United States had already entered the advanced stage of indus-

trialisation. It was almost impossible for Japan to compete with these countries in their established market. The only outlet for Japan's products seemed to be in the undeveloped areas in Asia. The people in these areas, with their low incomes, were not quite prepared to buy goods which were produced by the West. The Japanese snatched the opportunity and produced a large number of imitation goods at low prices. Once the market was firmly established in the Far East emigrants who were clerks, shopkeepers, firm representatives, and salesmen began to pour into these areas. Furthermore, the Japanese found that they could obtain raw materials from Manchuria. Emigrants, mostly agents sent over by Japanese industrialists, came to Manchuria to exploit her resources. They built railways, factories and established trading firms in Manchuria. Japan was determined to make use of Manchuria as a source to feed industries at home. The great construction that was going on in China called forth a considerable number of Japanese technicians, men in administrative business, and professional jobs. At the same time, the Japanese also sent troops over to protect their enterprises in Manchuria. All these accounted for the steep rise in the number of Japanese emigrants in Manchuria. In the meantime, Japanese migration to the United States and Hawaii still continued though the increase in the number of emigrants has not been considerable. This certainly shows that the prospects in both the United States and Hawaii had not lost their attractiveness; but, since Manchuria and Southeast Asia also promised good prospects and the geographical proximity between Japan and the mainland of Asia entailed only little expenses in travelling and transportation, the Japanese preferred to move to the mainland of Asia.

It must be emphasized that in this period, the population problem was not the immediate cause which made the Japanese to migrate to the various places around the Pacific. The population problem could be an underlying cause; it made the Japanese become conscious of the fact that emigration alone is not a solution to the problem. The solution to the problem is to be found in industrialisation; the need for raw materials and the need for a market to dispose of their products in turn led the Japanese to migrate to mainland Asia. In fact, the population pressure in the period between 1900-1926 was almost negligible. In this period was seen a diversification of employment pattern, a higher level of employment and a higher standard of living. One last word to say about this period is that the commercial expansion which was taking place in this period had given the Japanese an opportunity to develop their shipping; this accounted for the growth of Japan's marine power in a later period.

It is difficult to decide whether the movements of Japanese overseas in the period 1927-1945 should be termed as intra-Empire movements or termed as emigration. In fact, it was a mixture of both. The northern part of China then was treated as an occupied territory and was at the same time treated as an ally. It is further complicated by the fact that what was once part of the Japanese empire is no longer so. In this article, all movements of Japanese people outside Japan Proper in this period will be treated as emigration.

In 1926, there was an overall decline in economic activities in Japan. Income per head dropped. Besides, the higher standards of living which Japanese people enjoyed two decades before led the people to marry and produce children. By this time, in the thirties, all these children had grown up to be an army of workers who considered getting a job the primary duty of their life. Had the boom in all branches of economic activities been going on, the problem would not have been serious. The slump aggravated the seriousness of unemployment in Japan. Mean-

while, in the United States, Hawaii and Australia, strict legislation was passed against immigration of Asian labour.

The practice of abortion and infanticide was not desirable. But, Japan had found an alternative—the acquisition of land abroad by force. Young men were recruited. With her mighty marine power, and her well trained soldiers, she was able to invade China and South East Asia. It was in this period that the movements of Japanese overseas were largest. It was also in this period that the population pressure ever played a direct and immediate part in stimulating people to move abroad. It is not necessary to go into the details of the expansion of the Japanese military power which later became a menace in the Pacific. But it is enough to say that an Empire-building tendency was very strong in Japan in this period. An empire would not only serve as an outlet for Japan's excessive population, it also served as a market in which only Japanese products were sold. The monopoly of such a big market would again boost up the economic activities in the motherland. Millions of young men, mostly soldiers and merchants went to China and South East Asia. Movements towards the United States and Hawaii had to stop after 1939, because of the enmity between the two nations. In this period then, economic causes, combined with military expansion, acted as a push for the Japanese to go abroad. Many Japanese hardly thought that they were migrating to a foreign land; they planned to settle down in these areas permanently, they built factories, they exploited the natural resources and they set up schools.

The Second World War ended with the repatriation of the Japanese people; more than six million Japanese were repatriated. For some years later there had not been movements of people abroad. Only in 1952 a movement across the Pacific started. Movements towards mainland Asia and South-East Asia are still not possible, because sentiments of the people in these areas are still against the Japanese. The future trend of the Japanese emigration would be towards North and South America. But this will not materialize in many years to come. The emigrants have to be trained to know their trades and to know about the customs of the country into which they are to migrate. The emigrants have to be prepared to leave their home town forever which they do not want.

EFFECTS OF JAPANESE MIGRATION

It is doubtful whether the migration itself gave rise to a relief in the population pressure in Japan to any considerable extent. Comparing the figures of the total population of Japan and the figures of the Japanese emigrants, it would be found that the latter are only a small fraction of the former. In 1904, the total population of Japan was 46 million, but the number of Japanese emigrants was only 135,591. Even in 1929, the total number of Japanese emigrants was 795,015 while the total population was around 64 million. However, it is not to be denied that the Japanese emigration did give rise to a relief in the population pressure in Japan in an indirect way.

Before 1900, the relief came in the form of remittances from those Japanese who went over to Hawaii and the United States. These remittances enabled a minority of the Japanese people to spend more than they used to spend before. This stimulated consumption which indirectly increased the purchasing power of the people at home. Furthermore, those Japanese who went abroad were all able bodies who would otherwise have remained in Japan's labour force to compete with other Japanese for work. This reduction in the volume of labour in Japan made competition less keen, and consequently wages remained at a higher level than it would otherwise have been. A higher level of wages meant a higher purchasing power for the working

class. With a higher propensity to consume, the multiplier was readily at work, and this helped Japanese economy as a whole. The effects that the Japanese emigrants produced in both Hawaii and the United States were also great. They came at the time when fresh sources of labour were needed, though the Chinese were already there. The Japanese were a hardworking and intelligent race and they were soon working on the Hawaii sugar plantation, and on the United States transcontinental railway. Without the source of cheap Japanese labour, developments in these two countries could not have been so quickly completed. Besides, they also worked as laundry men and helped to develop the domestic economy of these countries. The descendants of Japanese-Hawaii parents have now become a class which takes an active part in the Hawaii politics and economic development.

After 1900, the effects produced by the Japanese migration were even more numerous. The number of emigrants had increased considerably; because of the geographical proximity between Manchuria and China, and because the Japanese began to treat Manchuria more and more as part of their Empire, women and children began to join in the migration. There was, after 1900, some relief of the population pressure due to the migration itself. But again, the relief of population pressure came mainly in the form of a higher standard of living in Japan made possible by remittances of the emigrants. Japan in this period was characterised by an expansion in industrial developments. The emigrants who came to mainland Asia and South-East Asia were responsible for securing a big market for the home products. Once the market was secure, the home industries grew at an accelerating pace. Investment opportunities were good and easy term credits were made possible. This encouraged large scale industry, which provided higher income and more jobs for the Japanese.

Meanwhile, the Japanese helped very strongly to develop the countries into which they emigrated. They industrialised Korea, Manchuria and Taiwan. Without the Japanese, the Korean hydroelectric plant would never have been developed. The Japanese also found that carrying raw materials like ores and coal from Manchuria for processing in Japan involved a high cost. They began to construct factories and plants in Manchuria itself. The iron and steel foundries in Anshan were constructed by Japanese engineers. The Japanese also found it necessary to train local workers who later formed a large class of semi-skilled and skilled workers in Manchuria. In Taiwan, the sugar industry was developed, and supplied Japan and her territories. The Japanese also helped the Thai government to develop its rice milling industry. The rice mills owned by the Thai government at the beginning of the Second World War were no bigger than those owned by the Chinese rice merchants. The Japanese came along and expanded the capacity of the Thai government rice mills. In short, the Japanese not only industrialised their own country, but also tried to bring industrialisation to other parts of Asia. Their emigrants came along and changed the modes of life and the face of the countries into which they entered, and they deserve therefore to be regarded in this connection as benefactors of East Asia.

After the war, the repatriation brought in a considerable number of Japanese from abroad. Japan was facing a more serious population problem than it had ever been facing before. There was a great need for immediate relief of the population pressure. But, there was no possibility for the Japanese to emigrate, since hostility still existed abroad. The clamour for emigration was inevitable. The Japanese government began to play a great role in encouraging people to emigrate. To ensure that the emigrants are worthy to the recipient countries, the Japanese government promotes emigration by what is now

ECONOMIC SURVEY OF JAPAN

(Compiled by United Nations ECAFE Secretariat)

PART II

PRODUCTION AND EMPLOYMENT

Agricultural production

In agricultural production, favourable weather conditions were largely responsible for the record over-all crop of food-grains in 1955. Wheat, barley and naked barley together amounted to 3.9 million tons, which was slightly (5.7 per cent) below the record figure of the previous year. Then came the unprecedented crop of rice, which amounted to 14.8 million tons, 3.5 million tons higher than the 1954 crop and 4.5 million tons higher than the 1953 crop. Earlier in the year the government had announced a new system of delivery for rice, according to which rice producers could make advance commitment on sale to official channels and receive in return advance payment amounting to approximately one-fifth of the expected official price. It had been expected that 4.5 million tons of paddy would be committed in this way; but actually, by the end of August 1955, the target figure had been exceeded by 18 per cent. The raising of production as such, however, is only a part of the problem Japan's agriculture faces. Productivity in agriculture in 1954, as measured by quantity produced per man engaged, had not yet recovered the pre-war level; and since manufacturing industries meanwhile improved their productivity, the relative position of the agricultural productivity index as compared with the manufacturing productivity index deteriorated by 1953 to 66 per cent of what it had been in pre-war years (average of 1934-36). Such a trend is further corroborated by input studies in agriculture, showing that between 1937 and 1954, while the index of material and equipment input per unit area rose by 45.8 per cent, the index of labour input per unit area remained practically unchanged for major crops such as rice, wheat and barley. The marked rise in the index of material and equipment input reflects the greater use of mechanical equipment in agriculture, such as power ploughs and power threshers; and it appears that the technological condition exists for improving productivity in foodgrain production but is being prevented from fulfilling its potentialities by a saturated condition of labour supply. Even with a slight decline in cultivated areas, the labour force engaged in agriculture in recent years has been more than 20 per cent higher than the pre-war normal of 14 million; thus, average area cultivated per family has declined from a little over one hectare in pre-war years to less than 0.9 hectare by 1954. The draft Six-Year Plan, having taken this fact into account, proposes to limit the increase in the number of gainfully engaged in agriculture to 4.3 per cent over

known as "planned emigration". It has designated a private organisation, the Federation of Japanese Overseas Associations, to handle all business related to emigration. This organisation operates thirty-four associations which are located in Japan. It recruits and selects emigrants on the basis of their morale, physical health, occupation and family structure. It trains the selected emigrants in languages and customs of the country to which they are to go. Under the planned emigration, the Japanese government hopes to send out emigrants every year though under the present conditions it is not possible to send out emigrants in large numbers.

six years between 1954 and 1960 as compared with the expected increase in aggregate employment of 12.7 per cent over the same period. The plan in this regard is realistic enough, but the problem of over-population in Japan's agriculture is likely to remain for a long time to come.

Industrial activities

In the sphere of industrial activities (mining, manufacturing and public utilities), a slight recession witnessed in the middle of 1954 was short-lived and the index again turned upward after September 1954 and has since continued to rise slowly to reach the level of 203.7 (1950=100) in September 1955, i.e., 14.4 per cent above that of the same month in 1954. The trend of course varies for component industries. Compared to the average of the first half of 1954, iron and steel, textiles, paper and pulp, oil refining and chemicals expanded their production in the first half of 1955 by about 10 per cent, while machinery and vehicles, ceramic products, food processing and leather manufactures experienced a decline. How far the rise in exports was responsible for the over-all expansion in manufacturing production is not easy to ascertain precisely. But an attempt might be made to find possible correlation with regard to those commodities which ranked high in the list of Japan's exports in the last year or two.

The relevant question that might be asked is whether a high rate of increase in exports of any specific commodity has been assisted by such a fall in export price as could be explained by the concomitant rise in productivity of that industry. A fall in export as such could be the result of a deliberate commercial policy as was the case with a number of export commodities in 1954 when the compensation link system was in force to permit export of goods at below-cost prices. In fact, the so-called "deflation" policy which was introduced towards the end of 1953 had as its primary objective the creation of a condition which would force Japanese industries to seek markets for their products abroad rather than at home. In this respect, the policy appears to have been a success.

Whether or not the export-price reduction which in some cases was a factor for the increase in the volume of export was a result of an enduring improvement in productivity is a question much more difficult to answer. The protracted credit-restriction no doubt was conducive to the adoption of various cost-reducing measures that could be introduced immediately; but the enduring improvement in productivity which would require new investments in technological and organizational innovations will take time to materialize, and even then it may or may not result in actual reduction of unit cost depending on the rate of operation of the industry concerned.

The rise in productivity in recent years was due more to the saving in the use of labour and the increase in unit-capital efficiency than to the fuller utilization of existing capacities. The recent productivity-conscious attitude of Japanese business circles must be said to be bearing some fruit; but at the same time, it must also be conceded that such a trend has been accompanied by a greater degree of capital intensity and consequently the increase in production has not enabled manufacturing industries to absorb very much new labour force.

Employment

Since the additional labour force entering the labour market is quite large (an average of 700,000 each year) and the introduction of labour-saving innovations is highly desirable from the standpoint of increasing productivity, the problem of creating productive employment is of peculiar importance for Japan. Therefore, the trend in employment from 1951 to 1954, a period of fairly rapid expansion in productive activities as a whole, might be examined with a view to ascertaining changes in the composition of gainfully employed which occurred concomitantly with the rising trend in production. Between 1951 and 1954, the number of gainfully employed increased by 9.3 per cent while net national product, with wholesale prices remaining practically unchanged, rose by 41.5 per cent; agriculture and forestry did not absorb very much of the new labour force (only a rise of 3.1 per cent in three years), manufacturing employment rose by 10.3 per cent, or less than the average rise of 14.3 per cent in non-agricultural employment, and the highest relative increase took place in the sphere of wholesale and retail trade and finance (22.5 per cent); the rate of increase in employment appears to be roughly correlated with the rate of increase in contribution to net national product per gainfully employed person; and changes in employment from July 1954 to July 1955 reveal characteristics similar to those observed for the period between 1951 and 1954, only with greater emphasis. Within manufacturing itself, the trend of employment by industries tells a similar story. The employment situation deteriorated during the year ending in mid-1955.

A point of special importance in connexion with the trend in employment is the tendency, that has been observed in recent years, to stagnation of regular employment in large establishments and to relative increase of employment in smaller ones. For establishments as a whole, such a trend between 1951 and 1954 is obvious inasmuch as there was a relative shift during this period towards those sectors like commerce and services where the unit of operation is generally small. But even within manufacturing alone the comparison between the two establishment censuses (1951 and 1954) reveals a definite trend towards a greater concentration of employment in medium-size and smaller establishments. Whereas in 1951 the establishments with less than 100 employees per unit accounted for 60.5 per cent of the total employment and those with 100 or more for 39.5 per cent, these percentages shifted in 1954 to 61.6 and 38.4 respectively. If we take the category of those with 1,000 or more, the percentage has declined over the period from 17.2 to 15.0. It may be noted that of the six million odd workers organized in trade unions in 1954, 92.8 per cent were employed in establishments with 100 or more employed. Furthermore, it is in larger establishments that rapid increase in productivity has taken place. Although more than half (61.6 per cent) of the gainfully employed in manufacturing in 1954 were in establishments with less than 100, they seem to be generally on the periphery of the modern factory system and do not enjoy either the bargaining advantage of organized unions or the opportunity for productivity improvement. And yet in number they are relatively on the increase. Here lies a problem which appears to become more serious as Japanese manufacturing industries attempt to reap the fruits of labour-saving innovations.

MONETARY SITUATION

The general election which took place on 27 February 1955 returned the then government party with less than an absolute majority (185 out of 467), and this fact contributed towards delaying for three months the passage

through Diet of the budget for the fiscal year 1955 which was to start on 1 April of the year. The total projected expenditure of the general account was again kept barely below the Yen 1,000,000 million level, but shares of component items shifted slightly in comparison with the previous fiscal year; for example, social security expenditure (which occupied 14.2 per cent of the 1955/56 total) rose by 5 per cent over 1954/55, pensions (8.5 per cent of the total) by 5.9 per cent, transfers to local government (14.3 per cent of the total) by 1.5 per cent, and educational expenditures (12.4 per cent of the total) by 3.9 per cent, while defence expenditures (13.6 per cent of the total) remained practically the same and public-works expenditures (13.7 per cent of the total) declined by 4.3 per cent. These trends are generally the same as in the previous year, and are again favourable to types of expenditures which lean towards consumption. Although the budget figures for 1955/56 are as given above, a number of major items are linked to legislative or administrative commitments which are bound to inflate appropriations next year, notably defence expenditures and ex-service-men pensions. As for government new investment and loans in general and other accounts, the reduction of which in 1954/55 from the peak 1953/54 level was an element in the so-called "deflationary" policy of 1954, the budget for 1955/56 provides the enlarged total of Yen 319,600 million, including investment and loans for housing, of which Yen 10,700 million, will be provided from the general account. Although the appropriation from the general account will be about one-half of what it was in 1954/55, the total of new investment and loans from government sources in 1955/56 is more than 10 per cent larger than in 1954/55 and approaches closely the peak figure of 1953/54. On the revenue side, no major reforms were proposed, but a slight downward adjustment was made in both individual and corporate income taxes. It may be noted, in particular, that tax credits on individual dividend income was provisionally raised from 25 per cent of dividends received to 30 per cent and also that the basic exemption on individual income was raised from Yen 70,000 to Yen 80,000 per annum.

The combination of differing trends in main sources of effective demand is reflected in the monetary situation. The extra money which flowed from the export sector, instead of stimulating new investment or additional consumption expenditure, apparently seeped into the banking system and had the effect of loosening the tight money situation which had been deliberately brought about previously. The first half of 1955 presents a picture which is quite different from that of earlier half-years. Increase in loans and discounts of all banks in that period was about as small as a year before, but increase in general deposits was distinctly larger; and these trends were much more pronounced in the case of "Big Eleven" banks. The elbow-room thus created was apparently utilized for reducing banks' dependence on the central bank's credit, which, after increasing steadily for several years, dramatically turned downward after the third quarter of 1954. By the middle of October 1955, outstanding loans and discounts of the Bank of Japan had gone below the level of Yen 80,000 million for the first time in five years, a reduction of almost 80 per cent in twelve months. The easy money situation which gathered momentum through the calendar year 1955 was naturally reflected in the improvement of the so-called "over-loan" situation of banks. Taking the average of all banks, the ratio of loans and discounts plus lendings for settlement of import bills to own capital plus deposits and debentures minus checks and bills had stood above 100 per cent for some time; and this fact has been regarded as an unhealthy sign for ordinary banks. But since about October 1954, the ratio for all banks has gone below the critical point of 100 per cent

and has continued to decline, reaching the figure of 92.5 per cent by August 1955.

Easing of the monetary situation has contributed at last towards making a start in rectifying the distortion in the structure of interest rates which has prevailed in post-war years. For one thing, the general level of interest rates has been distinctly higher in post-war years than before the war. For manufacturing industries as a whole the burden of interest charges as a proportion of total sales value has been lately around 3 per cent; and in the case of the fabricated-metal-products industry it was as high as 6.5 per cent in the latter half of 1954, which might be compared with the proportion in that industry of wages and salaries to sales value, 8.9 per cent. In fact, a paradoxical situation is reported: a firm in the fabricated-metal-products industry, confronted with possibility of introducing labour-saving innovations, would sometimes have to pay more in interest charges than the labour cost saved if it were to install the innovation by borrowing. Ordinary banks could make a substantial margin of profit by discounting commercial bills while borrowing from the central bank so long as they did not have to incur the so-called secondary penalty rate. The call rate also stood excessively high until quite recently, because call money was relatively scarce and banks used it to repay that part of their borrowing from the central bank which was subject to the penalty rate. The graduated-rate system of the central bank was maintained almost intact through the first half of 1955, but the easing of the monetary situation which meanwhile ensued enabled one bank after another to extricate itself from the application of the penalty rate; and the role of the graduated-rate system as an instrument of monetary control became less and less important. Observing the trend which was gathering momentum, the government took this opportunity to induce a gradual normalization of the structure of interest rates. In March 1955, the Minister of Finance exhorted bank leaders to strive for lowering of loan rates, and the cue was taken by the latter to take the step from June onwards. Thus most of the rates were revised downwards between May and August by 0.36 percentage points or more. The government's intention to restore the normal rate structure was further reflected in the raising, in August, of the central bank basic discount rate, which however has hardly changed effective rates on loans by the Bank of Japan. However, the easing trend was carried over into the autumn of 1955, various rates moved further downward and central bank loans threatened to touch rock bottom by the end of the year. The Bank of Japan finally started in October to absorb some idle funds by resorting to selling operations. However, normalization of the level and structure of interest rates is likely to be a slow process, inasmuch as the cost of bank money still stands above 7 per cent and the task of raising efficiency in banking operation is bound to take time.

CONCLUSION

Balancing normal trade with reasonably full employment at home is the broad theme around which the various economic policies of Japan have been focused in recent years and are likely to remain focused for a number of years to come. The trend of increase in exports, which has continued more or less uninterrupted for a year and half since the middle of 1954, has raised hopes that the task of balancing trade might not be too difficult of early achievement. However, there seems to be little doubt that the latest export boom of Japan was to a large extent due to outside factors such as the relinquishment of import restrictions by sterling-area countries and the general rise in world effective demand for manufactured goods. Inasmuch as a greater part of Japan's exports consists of manu-

factured goods which must constantly meet the competition of those of other industrialized nations, the reduction of cost through improvement in productivity is an essential condition for the enlargement of Japan's relative share in the volume of exports of such goods. True, there has been some reduction in prices of a number of Japan's export goods in the course of the last year or two, and there are also clear indications that productivity has been on the rise for major lines of manufacturing industry. But it is far from certain that these matters have been the sole causal factor in the export boom of 1954-55. The tight money policy of 1953-55 played a part here, by creating a condition which eliminated the excessive domestic demand and forced Japanese business circles to search energetically for new markets abroad.

Whatever the cause, the export boom has been the dominant feature of Japan's economy since the middle of 1954. The trend towards weakening of prices, lower rates of profit and stagnant production was first arrested, by July-August 1954, in those sectors which benefited most from the increased export demand, and the turn of events gradually over the whole economy. The process, however, was rather slow. The net increase in effective demand arising from the export sector apparently played the role of

filling a gap which had existed between aggregate demand and potential supply and thus had the consequence of gradually easing the monetary situation all round. This trend was especially noticeable in the first half of 1955 and actually gathered momentum in the second half. Deposits with banks increased relatively more than loans, borrowing from the central bank declined rapidly, and interest rates began a slow downward movement. As exports kept on rising in the third quarter of 1955, and at the same time a record crop of rice was assured in the agricultural sector, the economy appears to have found itself on surer ground for further expansion, and most indicators, including consumption expenditures and new investment on plant and equipment, joined in the upward movement in the latter half of 1955.

What remains to be seen is the effect of the recent events on employment—a crucial point in relation to the long-range task with which the Japanese economy is confronted. After a year's maintenance of a high export level, the figure of fully unemployed stood even higher than at the time of depressed condition a year before, bespeaking the difficulty of quick absorption of the new labour force. After July 1955, however, there were signs that the over-all employment condition had also improved slightly. But it is quite important to note that the sizable improvement in productivity witnessed in Japanese manufacturing in the last several years has been greatly assisted by labour-saving innovations and that consequently the trend of regular employment in larger establishments has been remarkably stable over almost eight years between 1947 and 1955—even declined, if anything, in the last few years. Thus there has ensued a greater degree of concentration of labour power in smaller firms which, by and large, lag behind the general progress in productivity of manufacturing industries.

Whether it will be the free play of private economic motive forces that will bring about the necessary adjustment in the structure and functioning of the Japanese economy in such a way that its task for viability can be achieved is rather problematical. It is probably with this consideration in view that the Japanese Government has been working on the draft Six-Year Plan (1955-1960). The plan does not propose to change the basic pattern of Japan's free enterprise system. But it marshalls forth all the data and information available to estimate the probable course of development of various sectors of the economy, sets them against the broad objectives of viability, thus showing up the nature and magnitude of the problems which have to be solved if the country is to balance its normal trade with a reasonable degree of full employment by 1960, and finally suggests the possible avenues of solution involving a minimum degree of controls, consistent with the basic tenet of the free enterprise system. Naturally, fiscal and monetary measures are the main instruments for implementing the plan. But it is also recognized that these may not be sufficient for the purpose, and the public is energetically exhorted to co-operate voluntarily towards attaining the aims of the plan. Basically, the instruments envisaged are not much different from what the government has had at its disposal during the past few years. Therefore, the experience of 1954/55—during which time various conditions were favourable for Japan to take the opportunity of bringing the economy nearer the objective of viability—could be regarded, in a sense, a pilot test for the coming period of implementation of the plan itself. Viewed in this light, the year under review has shown some good promises, since in a number of directions, such as the gradual normalization of the structure of interest rates and the expansion of trade with new areas, substantial improvement of a long-range character has been achieved.

(End)

ECONOMIC SURVEY OF THE REPUBLIC OF KOREA

(Compiled by United Nations ECAFE Secretariat)

PART I

Events thus far in 1955 arouse mixed reactions as to the extent of economic recovery in the Republic of Korea. During the fiscal year ending 30 June 1955 the gap was largely closed between the gross national product of 1954/55 (\$1,752 million) and the figure for 1949/50 before the Korean war (\$1,771 million), both in terms of the 1952/53 dollar. Population, estimated to have increased by over 9 per cent from 20.3 million to 22.3 million during 1950-55, however, makes the picture less favourable when translated to a per capita basis, which was \$92.4 in 1949/50 but \$88.1 in 1954/55.

A number of short-term recovery and reconstruction projects have been completed, or are approaching completion, in irrigation, fisheries, transport, mining, manufacturing, housing,—indeed, throughout the battered Korean economy. Progress is also reported on a smaller number of larger-scale and longer-term development projects relating particularly to fertilizer production, industrial facilities, and electric power, although actual operation will not take place until 1956 or later. An encouraging factor has been the succession of three bumper rice crops from 1953 to 1955. An important setback is in the field of foreign trade where the completion of the ROK-US tungsten export programme

in March 1954 resulted in much lower visible exports thereafter. Production was hampered by shortages of credit, electric power and raw materials.

Meanwhile, the Republic of Korea remains dependent on outside aid to balance both its domestic and international accounts in the face of huge budgetary deficits, persistent passive balance of trade and difficulties in the development of exports. The pace of domestic price inflation quickened during the first seven months of 1955 but has since reversed itself.

Given the limited resources of divided Korea, the increasingly dense population of the Republic of Korea, the available foreign economic aid with certain probable inefficiencies in its use, and the fact that one-tenth of the labour force, concentrated in the most productive age and skill groups, is retained in the military services, the target date for economic viability at pre-Korean-war standards must probably be set back. The plans drawn up thus far have for the most part anticipated recovery to that point in from three to five years. In view of the persistent trade deficit and inflation, however, a substantially longer period may be a more realistic estimate.

BACKGROUND

Korea is one of the relatively more highly developed areas of the Asian mainland, most of its development dating from the Japanese colonial rule (1910-1945). Japanese occupation left Korea with a good railway network, some of the best power, fertilizer, and irrigation projects in Asia, developed coal and other mines, and a number of up-to-date factories, all of which escaped damage in the second world war except for inadequate attention to repairs and replacements. These undertakings, however, were not always adapted to the needs of a peaceful and independent Korea. Furthermore, Koreans were not trained in sufficient numbers to staff these projects. In 1944, Japanese nationals occupied some 90 per cent of all managerial and technical positions in Korea; for industry alone, of the 9,852 engineers and technicians employed, 7,993 were Japanese. The repatriation of the Japanese technicians upon Korean liberation in 1945, a necessary step from the Korean point of view set back Korean economic development from the short-period standpoint.

The division of Korea along the 38th parallel in 1945, with the subsequent cutting off of economic intercourse between the two sections, was a serious blow to each of the two truncated economies. It was perhaps most serious to the Republic of Korea in the south, a predominantly agricultural area with the bulk of the population but the smaller, though less mountainous, portion of the land area, for this region had been dependent on the north for a number of essentials like fertilizer and electric power. In the course of separate development of North and South Korea, there is some danger of duplication of facilities in the two halves and hence of excess capacity when Korea is re-united. There is also danger of improper location of some facilities from the point of view of a unified Korea.

The damage Korea had escaped during the second world war came instead in 1950-51, in the course of the Korean war. For the Republic of Korea alone, an official estimate puts the total property losses during the latter conflict at some \$1,800 million. The damage was concentrated in industrial centre around the capital of Seoul and its port of Inchon, which changed hands four times in a year. Industrial facilities alone are estimated to have been damaged to the extent of \$354 million. This includes substantial damage to 43 per cent of all industrial installations, 41 per cent of all power-generating installations, and 50 per cent of all coal-mining installations. (The \$1,800 million total includes also an estimate of damage to civilian housing, public buildings, vessels, vehicles, etc.). Reconstruction and rehabilitation, along with further development, remain the hub of the Korean economic problem.

The difficulty of reconstruction is increased by an abnormal rise in the population of South Korea since the end of the second world war. Over and above the natural increase, approximately four million repatriates and displaced persons and refugees (the latter mainly from North Korea) must be provided for. Offsetting factors are the repatriated Japanese (about 700,000) and the war dead (estimated at nearly a million). Between 1945 and 1950, the population jumped by 25 per cent to over 20 million, including perhaps 2.5 million North Korean refugees and repatriates from Japan. Another million and a half may have come from North Korea after 1950. A crude estimate put the population of the Republic of Korea in September 1955 at about 22 million.

These figures imply a population density of about 1,130 per square kilometre of arable land. The country is only 25 per cent arable, owing to its highly mountainous character. Taking into account the degree of industrialization and the proportion of arable land, the Republic of Korea probably has a more difficult basic population problem than any other country.

PLANS AND PROGRAMMES

Three plans for Korean reconstruction have been drawn up. A fourth, now under preparation in the Ministry of Reconstruction of the Republic of Korea, should be available early in 1956. All plans aim at securing and maintaining per capita living standards at least equal, despite further anticipated increases in population, to those of 1949-50. They also aim at a Korea which is "viable"—i.e., which exports a volume of goods and services sufficient to pay for necessary imports. They differ in their estimates of the length of time required for these goals to be attained. They differ also in relative stress as between consumption and investment, with the Koreans desiring a greater concentration on long-term investment projects from the start, and the aid agencies placing more emphasis on maintaining consumption standards during the early phases of reconstruction.

The new five-year plan of the Republic of Korea is available only in preliminary form. As it stands, its aim is economic viability in 1960 at a per capita national income of approximately \$100. It hopes for total application of \$2,300 million to the civilian economy over the five-year period, including \$500 million from the Republic's own resources. Other sources include: United States Government agencies, \$1,500 million, the International Bank for Reconstruction and Development, \$130 million, and private foreign investment, \$30 million. On the use side, \$1,000 million is programmed for real capital investment, \$1,150 million for raw materials and consumption goods, \$23 million for technical assistance, and \$10 million for relief.

PRODUCTION

Agriculture, forestry and fisheries

Over-all production of the principal cereals fell off slightly during the 1954/55 crop year, but remained some 400,000 tons above the 1949-1954 average. The 1954 rice crop, fortunately, was a record one, amounting to 2,160,000 tons, a further increase of 6 per cent over the bumper crop of the previous year. The summer cereals (barley, naked barley, wheat, rye), however, totalled only 635,000 tons, a drop of over 17 per cent from 1953/54. This decline was due to unfavourable weather during the growing season, since plantings were up and the fertilizer supply was approximately equal.

While inadequate rainfall in May and June delayed rice transplanting in most areas, subsequent ideal weather resulted in a record rice crop, officially estimated at 2,244,000 tons, or 4 per cent above the 1954 bumper crop. At present only 60 per cent of the average crop is grown on irrigated land unaffected by short-term droughts; the Korean Government and international irrigation programmes aim at increasing this crucial percentage to 75 or 80 by 1957/58.

Following the two excellent rice crops of 1953 and 1954, prospects appeared favourable for rice export of perhaps 100,000 tons. Negotiations with interested buyers failed to produce agreement on prices and other terms, and the expected export was not achieved. Part of the stock intended for export was released from government storage bins in June 1955 to combat the seasonal price rise, aggravated by reduced summer cereal crops, and prospects at the time of release of an inferior rice harvest.

Credit problems continue to beset the Korean farmer. He owns his land, as a result of land reform. He may not, however, alienate it to his creditors, and ordinarily has no other collateral for bank loans, whether for seed or fertilizer, or to hold crops off the market to wait for seasonably higher prices than prevail at harvest time. As a result, he is dependent on local money-lenders at a standard interest rate of about 20 per cent per month in most districts, and he must sell his crop when prices are lowest. To alleviate this

situation, some 2,700 million hwan were made available for farm credit during the 1954/55 fiscal year by the Bank of Korea through the Federation of Financial Associations.

Considerable improvement was observed in the forestry situation, where Korea faces deforestation with its accompanying evils, erosion and flooding, as a result of centuries of over-cutting, particularly in the vicinity of the larger cities. Imports of sawn timber and logs continued. There was some increase in the use of coal briquettes for cooking and home heating. The use of peat, of which there are large areas, for household purpose was not popular, in spite of widespread campaign, largely because of its odour and the difficulty of setting and keeping it alight. Also, the 1954/55 winter was relatively mild. There was thus a reduction in forest tree cutting and pruning. In the meantime, an intensive tree planting programme was carried out in the spring of 1955, about 350 million seedlings having been planted.

Landings of fish and other marine products declined by 4 per cent during the 1954 calendar year. It was the second successive decline. The value of marine exports, however, rose by 16.5 per cent in 1954 over 1953. The decline in production was due to a continued shortage of fishing boats, and continued deterioration of the existing fishing fleet. The first half of 1955 will show a further drop below the 1954 figure, with the additional handicap of inadequate fuel-oil deliveries to fishing boats. On the other hand, prospects for the second half of 1955 and for subsequent years are more favourable. The Korean Government-UNKRA programme of fishing-boat construction and repair was put into operation during the autumn of 1954, and several hundred boats were repaired during the first six months of 1955. In addition, 10 large new foreign-built trawlers arrived during March and May 1955, and 53 smaller vessels were added to the Korean fishing fleet between January and the end of June. The paucity of investment and working capital within the fishing industry and the difficulty of obtaining long-term credit are, among other things, also the main cause of delay in development.

Industrial production and transport

Power generation in south Korea has undergone a rapid rehabilitation, but is still substantially below domestic and industrial requirements. Total power generated was 932 million kWh in the year ended 30 April 1955, as against 777 million in the previous year. The increases in power generation occurred both at steam and hydro-electric plants, particularly the latter. Output from the United Nations Command power-barges was up by only 10 per cent, but they continued to supply 275 million kWh of the 932 million total.

Rehabilitation of a large generator at the Hwachon Dam was completed in July 1954, adding about 27,000 kW to the country's generating capacity. This capacity now totals about 120,000 kW. Construction now under way should add 100,000 kW of thermal power by September 1956. Extrapolating present trends and allowing for completion of existing projects, it is expected that a balance between supply and demand for electric power at substantially the present prices will be realized during 1958.

Manufacturing production showed mixed but generally upward trends during the fiscal year 1954/55. The increase was mainly attributable to four factors: increased raw material supplies both imported through the aid programme and purchased with Korean Government foreign exchange, the restoration of damaged plants, the entry of new machinery into operation, and increased supplies of power. Many plants, however, are still hampered by power shortages and irregular supplies of raw materials. Credit is almost unavailable at reasonable rates to most small business, for

either working-capital or long-term purposes, although some relief is given by the Korean Reconstruction Bank and, on a smaller scale, by the UNKRA Small Business Loan Fund.

Gains were reported in the manufacture of textiles, paper, cement, coke, bicycles, light bulbs, batteries, insulators, pottery and porcelain, soap and tobacco products. In cotton textiles, however, output failed to keep pace with capacity as measured by number of spindles. Output of tobacco products showed only a moderate rise. Production of two important items, rubber shoes and salt, did not come up to the previous year's figures; weather conditions were largely responsible in the latter case.

The value of mining output declined somewhat in the 1955 fiscal year, almost entirely due to a fall in production of tungsten concentrates (64.80 per cent WO). Other mineral production, including coal, improved quite generally. The increase in anthracite production (12.5 per cent) was especially encouraging. It reflects new management in the government-operated Dai Han Coal Company mines, and also improved credit arrangement permitting the payment of the money portion of coal-miners' wages. These had been in arrears for some months in 1954; the miners had resorted to wholesale absenteeism to supplement the rice rations, which they continued to receive, with cash income from other jobs. The health condition of the miners are reported to be poor, as 80 per cent of the underground workers are said to suffer from tuberculosis or solerosis of the lungs.

Tungsten could only be exported through the government owned Korean Tungsten Company, which also produced 90 per cent of the wolfram mined. An agreement between the United States and Korean Governments had provided for the purchase by the United States Government of the entire south Korean output for three years or up to 15,000 tons at a price which was almost double the world-market level at the time the agreement expired in March 1954. Production was ordered stopped by the Government, pending its decision, which took nine months to make, to sell in the world market. During 1954/55, only 2,456 tons of tungsten concentrates were produced, as compared with 7,006 tons in the preceding 12-month period, a 65 per cent decline. This decline, as will be seen, had a significant effect on south Korean foreign-exchange earnings, of which tungsten exports have come to be the major single source (about 70 per cent). The value of those exports dropped by 94 per cent in 1954/55 from the 1953/54 level. However, monthly international auctions of tungsten, instituted successfully in January 1955, have since reactivated tungsten mining operations on a smaller but encouraging scale.

In transportation, the Korean National Railway's freight shipments fell off during the year 1954/55, while the passenger mileage increased. The decline (21 per cent) in freight shipments (to 158 million ton-kilometres per month) was due to large reduction in military tonnage; transportation of materials for the civilian economy actually increased. Despite reduced military demand and despite an increase of 1,075 freight cars between December 1954 and May 1955, a shortage of freight cars still exists. Even aid goods are periodically held up by freight-car shortages at the ports of entry. Passenger-kilometres averaged 332 million per month, an increase of 10 per cent. This was made possible by conversion of some 200 box cars from abroad. Here again, the shortage remains acute. Work progressed satisfactorily on the construction of three new rail lines, of which the most important are expected to link the largest coal mining area of Samchok and the nearby industrial area on the east coast with the main national railway line and with a thermal power plant at Yongwol which has been operating at one-third of capacity for lack of coal.

(To be Continued)

THE TEST OF COLLECTIVISATION IN CHINA

The peasants flocked into the agricultural producer co-operatives in China chiefly because they had been assured it would be a good thing for them; they would produce more, eat more, and make more money. Now the peasants are looking eagerly forward to these boons. The issue of principle has been decided by the Government. Collectivism is now applied throughout almost the whole country. The real test is to follow, and there are bound to be difficulties if the peasants do not get what they expect. In consequence there is a rising note of anxiety in the official Chinese newspapers and many exhortations to the rural cadres to make sure that the members of the co-operatives get the appropriate remuneration. "The biggest possible proportion of the total income," says the People's Daily, "should be distributed to the members, and only the barest minimum kept for common funds and other public uses." At the same time the paper calls on the APCs to observe strictly the principle of "to each according to his labour," while giving proper attention to members who have special difficulties.

Special stress is also laid on sideline production as an aid to income, and much criticism is directed at local cadres who put the main grain or industrial crops before all else. The experience of the pioneer APC of Lucheng county in Shantung is cited at length as a pattern for others to follow. In mid-April it was found that sideline production was being entirely ignored, and found that a dozen trades which had proved lucrative to the peasants before had been dropped, from flour milling and oil pressing to transportation and stone crushing. Seven of these trades were resumed and if the other trades are also taken up as much as 5,600 yuan may be earned.

Peking complains also of extravagance and display in the case of some of the agricultural co-operatives. The trouble does not lie with the ordinary members so much as with the leaders of the co-operatives. Some of them hold that a large co-operative should be particular about style and elegance, otherwise it would not look Socialist. They waste money on appearances, on cultural and sports outfits, on large construction projects, including numerous office premises and large Pig-styes and cowsheds near the cross-roads of highways. In one case they forced 32 households to move away and pulled down more than ten houses for this purpose. One hsien committee spent a quarter-million yuan on cultural goods and house-building, and yet failed to provide 30,000 yuan production funds required for

spring sowing, and the living difficulties of nearly 100 households had been left unsolved. When the Party secretary tried to persist in these things and incurred opposition, he threatened those who opposed him. As a result other co-operatives began to do the same thing.

Another complaint is the dispersal of man-power and resources owing to the demands from business and other departments of the central and local levels in the anxiety to fulfil targets ahead of schedule, though many of these tasks have no relation to production. From Hopei came complaints that a dozen different tasks were assigned by higher levels, including the building of highways, the installation of telephones and the preparation of sports grounds.

Both the time and labour of the peasants all over China are now being pressed into use more than before. Millions of them are called on to take part in drives for sinking wells, opening ditches, digging rivers, accumulating manure, doing spring sowing, planting trees, etc. Draught animals, too, are working far longer hours. Demand has thus greatly increased for food, fodder and seeds. The decision to leave cattle in the fields and fatten them for the market, instead of working them, caused a great increase in demand for fodder, amounting to 30 million catties. The grain supply figures formerly fixed for the rural areas cannot fully meet the new demands, and the small surplus kept in hand projects into still greater prominence the problem now faced in calamity-stricken areas. Furthermore, in fixing production, purchase and sale in some areas, too little grain was left to the peasants or too low figures of supply were fixed for them. Moreover, after all the quotas had been fixed, certain areas were hit by calamities but the purchase and sale figures were not adjusted. Potatoes were frozen in some areas.

Supply and check-up, too, are crude in some localities. They even take last year's depression of sale as this year's policy on unified marketing of grain in the rural areas. The main problem of grain supply during the period March to June this year is to meet fully the proper requirements of the peasants. The target of sales is a billion catties higher than the same period last year, so if a good job is made of it, the task should be met. But proper control at the grain sales is necessary. The peasants have little time to go out to buy at markets far distant. Members of one-co-operative complained it took them one day to buy 30 catties of grain at a place ten miles away, while if they worked for a whole day they could get wage points equivalent to those 30 catties of grain.

CULTIVATION OF WASTELAND IN HEILUNGKIANG

Cultivation of wasteland is one of the major means of improving food production in China, and there is far more available than is generally realised by those who think of China only as a thickly over-populated country—forgetting that there are vast empty spaces still. For instance, all the land lying between the Chinese Eastern Railway's north-western section in Heilungkiang and the Siberian border on the Amur is virtually virgin territory. Hundreds of surveyors are now working around the foothills and plains below the Khingan Mountains and in the Sungari River Basin. They are planning future State farms which will open up 150,000 hectares this year. With the acreage of wasteland already reclaimed in the past three years, this plan, when fulfilled, will mean that the target of the State farms' five year plan will be exceeded by 60,000 hectares. Heilungkiang, incidentally, is now the biggest grain-producing province in the North-east.

The plans for Heilungkiang over the two five year plans envisage the reclamation of four and a half million hectares. In the first three years of the first national plan

no less than 410,000 hectares have been reclaimed, and when the plan is completed by 1962 the total cultivated area will rise from the present 6.7 million to nearly 11 million hectares; the total output of grain will rise from 8.2 million tons to about 16.6 million, while the agricultural population will increase from 8.6 million to over 12 million. No less than 2,500 new villages will spring up over half of the reclaimed area, resettling households from elsewhere, who will begin work in producer co-operatives of an advanced stage or State farms. This gigantic scheme will be carried out jointly by the State farms, the tractor land reclamation teams, and the producer co-ops.

Many State farms and a number of tractor stations have been established in Heilungkiang, and among them are 32 large mechanised farms which together have opened up several hundred thousand hectares of wasteland and accumulated valuable experience. The producer co-ops will reclaim wasteland for their own use and will also open up more than half a million hectares for the benefit of the settlers. The chief trouble resembles that in the newly

developed virgin areas of Kazakhstan—there are no homes, or any civilised amenities in all these vast areas, which consisted of great stretches of open land and forest where only wild animals lived and which is exceedingly cold in the winter.

It is estimated that Heilungkiang has as much arable wasteland as the total at present under cultivation. There are five extensive tracts of arable wasteland totalling five million hectares along the lower reaches of the Sungari and in the valleys of the Mulin, Nonni, Pai-an, and Hei Rivers. There are fertile plains with plenty of water sources.

Though the winter is bitterly cold there is plenty of rain and sun at other times of the year. There are also smaller tracts of land totalling about a million hectares which could also be worked for a great variety of crops.

The first provincial people's congress, held in December, discussed and adopted a number of reports submitted by Governor Han Kuang and others. The conference considered the fact that Heilungkiang is a new industrial province as well as an important agricultural and forestry area and that the province under the national plan is expected to develop its economy on a large scale. New industrial enterprises are said to be comparatively numerous and are being developed at a faster pace and on a grand scale. The delegates enthusiastically discussed measures to guarantee the realization of the first regional five year plan of the province and were especially pleased about the rapid progress of agricultural co-operativization.

The People's Daily in Peking pays tribute to the work of the agricultural scientific research workers in various parts of China. They have cultivated improved strains of grain and cotton. The per hectare yield of improved strains of rice ("Wei Kuo"), cultivated in the Hsiungyueh experimental station in Liaoning is considerable, and the seed is to be sown on a large scale and is expected to lead to a great increase of production. A variety of other improved strains is reported from other parts of the country, together with better wheat. Great success has also been achieved, it is stated, in cultivating improved strains of cotton. Over 10,000 types of rice and wheat have been collected and in some cases stages of growth analysed, thereby laying an excellent foundation for cultivating new strains. Farmers are also being helped to improve techniques.

Plans have been made for the despatch of 300,000 peasant households to Heilungkiang for resettlement in

1956-57, and the provincial People's Council and local councils in the counties have been ordered to look after the reception and care of the settlers. The building of resettlement villages for this year's arrivals was to begin at once, and some had actually been completed already. The reclamation of 360,000 hectares this year will be the responsibility of the State tractor stations, the State farms, and the APCs. As to the remaining 40,000 hectares, the new settlers will receive loans from the State to buy draught animals and new farm tools and carry out by themselves the reclamation of this portion. Spring tilling and sowing were to be carried out at once in 100,000 hectares.

The overwhelming majority of the arrivals this year will be young adults who will immediately be thrown into production. When production is developed, and the necessary houses are built, their families will then be allowed to join them. Within one or two years the foundations will be laid for the building of the new homes for the settlers. Most of the settlers arriving this year are being accommodated in new homes built for them. More than 400 resettlement villages are being developed, and each village will have accommodation for between 200 and 300 households. Each household will receive an average of two or three hectares of land, and added to this are ranches, afforestation areas, and building areas, so that each new village will take up from 1,000 to 1,500 hectares of land. In the new villages, there are now being built only collective dormitories and collective mess halls. When production is developed and the population increases, new buildings will then be constructed in more scattered manner. All the land in the villages is state-owned. The farm tools, seeds and draught animals needed by the settlers this year will be procured with loans from the State. So as soon as a new village is developed, there will be organised a complete Socialist APC. Among five to seven villages there will be created a central village, where supply and marketing co-operatives will gradually be set up, together with credit co-ops, farm tools repair shops, schools, medical clinics, cultural centres, technical guidance stations, and grain processing works.

In May, 1955 the State resettled 10,000 households from Shantung in an organised manner and they are now all in APCs. Some had admittedly returned to their native areas, for they had simply been dumped in this huge, undeveloped province, whereupon the local officials washed their hands of them. This year various measures were laid down to improve the work of receiving the settlers.

DEVELOPMENTS IN THE NEW TERRITORIES

(From the Report of the District Commissioner, New Territories, for 1954-1955)

The New Territories, leased from China for 99 years from 1st July, 1898, comprise 355 square miles of land and 673½ of sea. The land extends from Boundary Street, Kowloon, to the Sham Chun River and includes nearly 200 islands many of which are small, barren and uncultivated, while others such as Lantau, Cheung Chau, and Ping Chau, contain important centres of population. A strip measuring 7½ square miles between Boundary Street and the first range of hills, known as New Kowloon, is administered as part of ceded territory; no account of its administration is taken in this report. Between the inhabitants of the ceded territory and those of the leased territory (excepting New Kowloon) there is much less intercourse than their contiguity would lead to suppose. Few urban residents visit the New Territories except for recreation; recreation means for some the beaches, for some the secluded bays, and for some the mountain-tops; most travel by road, and there are not many

roads. Contact is not made with the villages, even those near the road. Conversely in the majority of upland villages one may find men who have never visited the city, and for many women the only journey of their lives is the fateful one when she leaves her native village to enter that of her husband.

Villagers are nevertheless pretty well-informed about Colony and even world affairs. This, since few villages are reached by the postal service and newspapers are rare, requires a word of explanation. The explanation is that nearly every village has at least one of its sons working "abroad", an expression which includes the West Indies, the Pacific Islands, Borneo, Europe—and Hongkong! With nearly every village is connected a shop or stall in one of the country market towns; and the close-knit clan organization sees to it that news received by these channels is disseminated on the "bamboo wireless". The affairs of the

village, and anything on the wider stage which may affect the village, are keenly discussed in the evenings; and the outsider who has the privilege of sitting in at some of these discussions soon learns that though some men and most of the women may be illiterate, these are no ignorant yokels but intelligent men and women of the world.

There is no part of the New Territories where the scenery is not dominated by mountains. Only Taimoshan and Lantau Peak exceed 3,000 feet, but many of the lesser mountains are steep and rugged enough to make communications a problem, and although the relief map shows an approximate run of the highest ranges from north-east to south-west, high ridges and spurs run off in all directions, the eastern mainland in particular being deeply indented by narrow valleys and fjords. Only about 50 square miles are under crops, most of the remainder being steep grass slopes.

The Population

The population of the New Territories was until recently estimated at between 200,000 and 250,000 but an unofficial census held in March, 1955 indicated a figure in excess of 300,000. The figure for registered births in 1954 was 8,906 compared with 4,810 in 1950, when the official estimate of population was about 200,000. The immigration of settlers also continues, though the territory is nearing the maximum figure of population which it can support. Racial analysis of the indigenous inhabitants is complicated by the prevalent confusion of race with language. Historically there can be little doubt that the boat-people and a few of the hill villagers are of non-Chinese origin, but all now regard themselves as Chinese and speak Chinese dialects, the only traces of aboriginal descent (apart from physical appearance) being found in some place names, unintelligible in Chinese, and hints or recollections of distinctive forms of animist worship. All the indigenous shore-dwellers classify themselves as either Punti or Hakka, the former being a Hakka expression for the Cantonese; but one Punti-speaking clan claims to be of Hakka origin. The boat-people are mostly Tanka, with a few Hoklo in the eastern waters. The Punti and Tanka dialects both belong to the western section of the Yueh language, or group of Chinese dialects; the Hakka speak two dialects or sub-dialects of the eastern section of the same Yueh language; while Hoklo is a Min dialect similar to those spoken in the province of Fukien and in the Chiuchow, Hoilukfung and Kiangchow areas of Kwangtung province. In addition almost all the indigenous inhabitants understand the standard (Punyu) dialect of Cantonese, which is the prevailing dialect also of urban Hongkong. The usual village community consists of a single clan, but two- and three-clan villages are also common and multi-clan villages occur. In a few villages even Punti and Hakka live side by side. Strict exogamy is practised, as usual in China.

The Punti-speakers depend for their livelihood mainly on the cultivation of rice. Hakka villages on the islands or near the coast combine agriculture and fishing, while the purely fishing (Tanka or Hoklo) population centred on the islands of Cheung Chau, Lantau, Putoi, Tap Mun, Kat O and many smaller islands, bring their catches in to Aberdeen, Cheung Chau, Tai O or Taipo, and seldom use dry land except for mending and drying nets, drying fish, and so on. Additional sources of income are found by the farming villages in the cutting and sale of grass, picking medicinal herbs, the cultivation of pine-trees, the keeping of livestock and poultry, the rearing of oysters, operating fish-ponds and salt pans, small brickworks and lime-kilns, tanneries, soy and beancurd factories, and the preparation of other preserved foods. A feature of the post-war years has been the growth along the main roads of farms specializing in poultry, livestock, fruit and flowers, often started with refugee capital. These have given rise to some problems of assimilation, and on the whole this development has been of doubtful benefit to the countryside.

The towns for the most part serve as centres for the exchange of goods and services for the surrounding country-

side and provide marketing facilities; of which the most important are those for the milling of rice and the bartering of the high quality rice grown in most parts of the New Territories for larger quantities of inferior imported rice. Most of the mainland towns now have a postal delivery of ordinary mail once a day, and a few can even receive registered mail; it is usual for a village to arrange daily for one of its members to visit its nearest town (which may be several hours' journey) to collect letters and bring back news and gossip. Most shop-keepers and employees in these country towns belong to the surrounding villages, and a good many of them maintain only a lodging in the town for themselves and such of their immediate family as are directly engaged in the business, the remainder staying at home in the village. If the village is within a mile or two of the town not even a lodging may be necessary, though one or more of the family may sleep in the shop as caretaker. This has a distinct effect on the corporate life of the town, making it difficult for "outsider" (any person whose ancestor was not living in the New Territories in 1899 is so called) to gain a foothold; at the same time it ensures that town interests will never prevail over those of the countryside, as happens in some countries.

In the township of Tsuen Wan, and to a lesser extent in Yuen Long, there has been a considerable influx of non-local business and industry, and in both towns the development has been rather faster than the local economy can adjust itself to. In Tsuen Wan in particular most of the new factories have not employed local inhabitants but have imported workers from urban Hongkong and even further afield, in many cases without making provision for their housing. It will take several years before these new arrivals, amounting to one-sixth of the population of Tsuen Wan, can be properly absorbed.

The District Administration

The New Territories are divided into 3 districts, each in the administrative charge of a District Officer: Yuen Long in the north-west, Taipo in the north-east and the Southern District which includes the southern mainland, the southern half of the Saikung peninsula and the islands south and west of Hongkong. Each District Officer is assisted by one or more land bailiffs, and by a small clerical and out-door staff numbering about twenty in all. The whole is coordinated by a District Commissioner with a small headquarters staff in Kowloon. The District Administration stands in particularly close relationship to the people of the New Territories, and thus finds itself concerned intimately in the activities of other departments even though these departments are not directly responsible to the District Administration. Close coordination is therefore maintained with the Police, Agricultural, Marketing and Cooperative, Education, Medical, Public Works, Social Welfare, Labour and Mines, departments.

A Rural Development Committee was appointed by the Governor in June comprising the Director of Agriculture, Fisheries & Forestry, the Superintendent of Agriculture & Animal Husbandry, the Registrar of Cooperatives, Mr. H. Kadoorie, Mr. I. S. Wan, and Dr. D. Y. Lin, with the District Commissioner as Chairman. The Committee's terms of reference are to advise the Government, and all other interested bodies, upon matters relating to the general development of the New Territories and in particular to agricultural development including the operation of approved schemes for agricultural loans.

Development Projects

Development work in the New Territories needs to be divided into work done in the New Territories for the benefit of the city, and work done for the betterment of the New Territories themselves. The former accounts for the lion's share of the financial provision made, the latter comprising a multitude of minor schemes whose effect, however, is far greater than the small cost suggests. Chief in the former category is the Tai Lam Chung water scheme and

improvements to the main circular road. During the year under review, a good deal of land in Tsuen Wan area had to be resumed on both sides of Castle Peak Road both for the new pipeline and to widen and straighten the road itself, and another large area at Tai Wo Hau, east of Tsuen Wan, had to be resumed for the resettlement of squatters. A new wider road and bridge at Tai Wai, Shatin, was opened to traffic at the end of April, 1954.

Works for the betterment of the New Territories were mainly concerned with the improvement of the supply of water, both for irrigation and drinking supply, and the improvement of communications to the food-producing villages. Preliminary work and negotiations were completed for the Cheung Chau water supply projects in which a small reservoir is to be built east of Shap Long village on Lantau and water to be piped across to the island of Cheung Chau. A greatly improved water supply for the Shatin Market was provided after the construction of dams at Fo Tan, the water being piped from there to the Market. Several irrigation projects financed by the Colonial Development & Welfare Fund were completed during the year at the total cost of about \$339,181. \$150,000 were spent on the construction and surfacing of various roads. Satisfactory progress was made on a low-cost housing scheme in Yuen Long for the rehousing of people who had to be displaced from the site of a new market. A number of European-type residences, one large and two small blocks of flats and one hotel were under construction on a hill south of Shatin, now known as Shatin Heights. The new market at Shek Wu, costing \$95,000, was almost completed at the end of the year. An electricity supply was laid on to Lo Wu Railway Station by the China Light & Power Co. Ltd.

Agriculture & Animal Husbandry

Abnormal weather conditions during the year caused exceptional hardship to the farming population of the New Territories. Lack of rain during the planting season of the second rice crop had already affected the harvest adversely when late season typhoons and strong winds with exceptionally heavy rains completed the damage. The typhoons broke through sea-walls and rendered areas of agricultural land uncultivable, in particular in the Shatin area. The breach in the Pak Hok Tun sea-wall at Shatin has been repaired at a cost of approximately \$150,000, and the land behind washed out to reduce salinity, but the loss of the crop remains where it fell. Vegetable crops were seriously affected by a sudden frost on January 12th, the sweet potato farmers in particular suffering almost complete loss of 25 square miles of crops. The drought did not break until the end of March, just in time to enable a crop to be planted but too late to permit of a decent yield.

Foot-&-mouth disease broke out in July, and the whole of the New Territories was declared an infected area. Restrictions on the importation and movement of livestock were rigidly enforced by the Agricultural Department and quarantine stations for the inspection of livestock were set up in various places. Contagious abortion in pig stock of foreign breeds increased and steps were taken by officers of the Department of Agriculture, Fisheries & Forestry to limit the spread of this disease. Fortunately Chinese breeds showed a marked resistance to the effects of contagious abortion. Despite the adversities suffered during this year the Agricultural Show, which was held in the Yuen Long Middle School from the 8th to the 10th January after being opened by His Excellency the Governor, was a huge success.

Forestry

Old and dying camphor trees in village groves which are felled on the advice of the Forestry Officer and sold by the villagers continue to provide funds which are used for the construction of approved local public works for the benefit of the villagers. A total of \$59,735 was raised by 11 villages in this way. To enable the scale of afforestation to be increased a new Forestry nursery was started at Tai Lung, near Ping Kong, in which 23 acres of well-watered

land will be used. Discussions are also in progress for the organization of area forestry nurseries by Rural Committees.

Industry

A new ore-crushing plant at the Ma On Shan mines was opened in October. A rope factory was established at Shek Wu, and a number of factories for the processing of ducks were set up in Yuen Long. Several applications were received to operate new factories including a printing press at Fanling Lau village and a sausage-skin factory at Tai Po Market. Vigorous action was taken, in concert with the Labour Department, against mushroom factories in the Tsuen Wan district where several quite unsuitable buildings had been erected without approval of plans.

Rural Committees

Almost the whole of the New Territories is now covered by a network of rural committees. The rural committee system is an improvement of the system of village representative in use up to 1941. Each village of from 50 to 100 inhabitants elects, or appoints according to clan custom, a representative and sometimes a deputy representative. Small villages may share a representative. Large villages (the largest has about 2,000 inhabitants) have several representatives. Since 1946, villages have been encouraged to organize themselves into areas, usually centring on a market town, and to elect a rural committee. Each area has its own constitution and method of election, worked out by the villagers themselves with the assistance of the district officer. The usual practice now is for all the village representatives for the area to form an electoral college and to elect the rural committee from past or present village representatives plus a few candidates to represent the town or towns and other non-village communities such as fishermen, miners, or immigrant factory workers. The 28 rural committees have as yet no statutory existence or powers, exercising only such functions as the district officer sees fit to delegate, in which some are more successful than others. Most of them, however, have already proved their usefulness not only as mouthpieces of public opinion, but also in the arbitration of local clan and family disputes and generally as a bridge between the administration and the people.

Welfare

285 New Territories volunteers sailed on June 4th, 1954, for a 2-year contract with the British Malayan Petroleum Co. in Seria, Brunei. Two new buildings in the Sin Tin To Home for the Aged at Shatin were opened on 23rd October, 1954. An issue of rice was made in November to the inhabitants of Tai Long in the Saikung district whose crops were completely destroyed by typhoon "Ida" in August. C.A.R.E. gift food parcels were distributed in January throughout the New Territories, the distribution being in most cases organized by the Rural Committees under the supervision of the District Administration. The gifts were heartily appreciated, and coming at a time when the winter drought had caused great apprehension for the spring harvest, the assistance could not have been more opportune.

Public Health

Lady Grantham opened the new Maurine Grantham Health Centre at Tsuen Wan on 17th May, 1954. In the first quarter of the year the following improvements to public health facilities were effected: licensed slaughterhouses were opened at Yuen Long and Tai Po on 8th April and 1st June respectively; public latrines were completed at Shataukok and San Hui; and Ping Chau Market was completed and the stalls occupied.

Education

At the end of the year under review there were 6 government schools, 197 subsidized schools and 49 private unsubsidized schools in the New Territories. This may be compared with 314 schools registered with the administration at the commencement of the lease; these, however, were

mostly village schools where a handful of pupils were taught to memorize the Chinese classics, the majority of village children receiving no schooling. Today there are few villages whose children cannot get proper schooling up to the fourth grade, and limited facilities exist for a bright child, whose parents are willing, to receive secondary education. A total of 16 schools were built or enlarged during the year, and a further six were nearing completion at the end of the year. Most of the village schools were assisted by government subsidies, the remainder of the cost of construction being borne by the local community who raised subscriptions equal to the government grant. In general the most frequent complaint made by villagers is the lack of facilities for the study of the English language.

Communications

The Tolo Harbour Ferry service was inaugurated on February 20th. The ferry leaves Taipo Kau Railway Pier

twice daily and opens up to communication the areas of Shap Pat Heung on Three Fathoms Cove, Lai Chi Chong on Tolo Harbour, the important fishing centre of Tap Mun, and the villages of Long Harbour. Great interest has been taken in this service by holiday-makers on Sundays and public holidays, and there has been a surprising number of early risers who have taken taxis from Kowloon to catch the 6.45 a.m. boat, in order to have six hours of undisturbed enjoyment of the villages and unspoiled valleys of these remote areas. The shop-keepers of Tap Mun have benefited by this increased business. In May the new parking arrangements were introduced in Yuen Long after the completion of the new road and are considered entirely satisfactory. Representations made by the district administration led to a new omnibus route being opened between Castle Peak and the Pat Heung Police Station providing a cheap, short stage service for local people previously crowded off the through service from Kowloon.

FINANCE & COMMERCE

HONGKONG EXCHANGE MARKETS

(June 4—9, 1956)

U.S.\$

| June | T.T. High | T.T. Low | Notes High | Notes Low |
|------|--------------|-------------|---------------|--------------|
| 4 | \$588½ | 588¼ | 586¾ | 586 |
| 5 | 588¾ | 588½ | 586¾ | 586½ |
| 6 | 588¾ | 587¾ | 586¾ | 585½ |
| 7 | 588½ | 587¾ | 585¾ | 585½ |
| 8 | 588¾ | 587¾ | 585¾ | 585½ |
| 9 | 587¾ | 587¼ | 585¾ | 584¾ |

D.D. rates: High 587 Low 585½.

Trading totals: T.T. US\$2,410,000; Notes cash \$305,000; forward \$970,000; D.D. US\$325,000. The slow market was further depressed on Saturday by the news of the sudden illness of the President of U.S. In the T.T. sector, usual offers came from Korea, Japan and the Philippines but demand failed to improve. In the Notes market demand from shippers and speculators was idle. Interest for change over favoured sellers and aggregated HK\$3.39 per US\$1,000. Forward transactions totalled \$1.25 millions. The D.D. sector registered more overseas Chinese remittance just before the Dragon Boat Festival.

Yen: Market was quiet with no change over interest fixed; cash quotations HK\$1,482.50—1,475.00 per Yen 100,000.

Far Eastern Exchange: Highest and lowest rates per foreign currency unit in HK\$: Philippines 1.835—1.825, Japan 0.0148—0.01455, Malaya 1.876, Vietnam 0.06802, Thailand 0.2739—0.2724. Sales: Pesos 330,000, Yen 118 millions, Malayan \$365,000, Piastre 104 millions, and Baht 5½ millions. The market was quiet.

Chinese Exchange: People's Yuan note remained at \$1.60 per Yuan and remittance at \$2.342. Taiwan Dollar notes at HK\$162—157 per thousand, and remittances at 154—151. The market was very quiet.

Bank Notes: Highest and lowest rates per foreign currency unit in HK\$: England 15.76—15.73, Australia 12.25, New Zealand 14.25, Egypt 15.25—15.20, South Africa 15.72—15.70, India 1.18625—1.185, Pakistan 0.85, Ceylon 0.87, Burma 0.52—0.505, Malaya 1.836—1.833, Canada 5.9025—5.8925, Cuba 4.50, Philippines 1.90—1.885, Switzerland 1.35, West Germany 1.35, Italy 0.0091, France 0.0149—0.0148, Vietnam 0.0715—0.0695, Laos 0.0745—0.074, Cambodia 0.0715—0.07, Indonesia 0.174—0.168, Sandakan 1.50, Thailand 0.266—0.264, Macau 0.9975—0.995.

GOLD MARKET

| June | High .945 | Low .945 | Macau .99 |
|------|-----------|----------|-----------|
| 4 | 255½ | 255¼ | |
| 5 | 255½ | 255½ | |
| 6 | 255½ | 255½ | |
| 7 | 255½ | 255½ | |
| 8 | 255½ | 255½ | |
| 9 | 255½ | 255½ | 255½ Low |

The opening and closing prices were 255½ and 255¼, and the highest and lowest 255½ and 255¼. The market was very quiet. Interest for change over favoured sellers and amounted to 35 HK cents per 10 taels of .945 fine. Positions taken averaged 17,500 taels per day. Tradings totalled 30,600 taels or averaged 5,100 taels per day. Deliveries amounted to 24,920 taels (4,020 listed and 20,900 arranged). Imports were all from Macau and totalled 18,000 taels. There was no arrival in Macau last week but one shipment of 48,000 fine ounces was expected. Exports totalled 20,000 taels (7,500 to

Singapore, 6,500 to Indonesia, 5,500 to Bangkok, 500 to Korea). Differences paid to local and Macau .99 fine were HK\$12.40—12.00 and 11.70—11.50 respectively per tael of .945 fine. Cross rates were US\$37.91—37.90 per fine ounce. US double eagle old and new coins quoted at HK\$263—260 and 225—224 respectively per coin; Mexican gold coins at 273 per coin.

Silver Market: 1,000 taels bar silver traded at HK\$6.15 per tael, 800 \$ coins at HK\$3.95—3.92, and 20 cent silver coins remained at HK\$3.06—3.04 per 5 coins.

New York Exchange Markets: During May the New York Foreign Exchange market was extremely active and volume of business transacted was substantial. Here are some buying rates for banknotes as supplied by Deak & Co., Inc.: Holland—3.845 guilders per dollar (last month same); Finland—322.58 marka per dollar (last month 333); Austria—26.04 schillings per dollar (last month 26.18); Switzerland—4.31 francs per dollar (last month 4.31); Belgium—50.50 francs per dollar (last month same).

Great Britain: During past month the pound rose to its highest peak since 1954, being quoted as high as \$2.74 buying and \$2.78 selling. Although demand continues to be high for spot delivery pounds on the free market, the pound towards the end of the month showed a weakening undertone and at the present is quoted at \$2.72 buying and \$2.75 selling. The American Account Pound, also falling off, is quoted at \$2.804, and Transferable Account Pound at \$2.784. France—An extremely heavy demand by tourists for French francs caused this currency to strengthen on the free market. It is now quoted at 396 francs buying and

392 francs per dollar selling. Germany—The German mark continued to be very strong, the free market rate now coming in line with the official rate of 4.19 marks per dollar. Italy—The Italian lire became slightly stronger owing to increasing demand by tourists for banknotes. It is now quoted at 635 lire per dollar buying and 627 lire selling. Spain—The Spanish peseta, traded in heavy volume during the month, fluctuated erratically, turned steady towards the end of the month at 44.25 pesetas per dollar buying and 43.66 pesetas selling.

Scandinavian countries—An increase in demand for these currencies caused an increase in volume and the rates became stronger. Buying rates: Norway—7.40 kroner per dollar (7.52 last month); Sweden—5.40 (5.44 last month); Denmark—7.09 (7.25 last month).

Argentina—The peso, becoming stronger, recovered somewhat from its past loss as the result of an increase in exchange of U.S. dollars on the free market in Buenos Aires. Latest quotations are 37.59 pesos per dollar buying and 36.36 pesos selling. Brazil—During the early part of the month the outlook for the cruzeiro seemed very dull, dropping to a very low buying rate of 90 cruzeiros per dollar. However, during past week an undertone of strength prevails causing the rate to become stronger: 86.20 cruzeiros per dollar buying and 81.30 cruzeiros selling. Chile—The peso, fluctuating constantly, is now traded at 520 pesos per dollar buying and 485 pesos selling. Colombia—The peso, showing little signs of recovering from its past loss, remained at 5 pesos per dollar buying and 4.65 pesos selling. Venezuela—The bolivar, traded in heavy volume at steady rates, remained unchanged at 3.36 bolivars per dollar.

HONGKONG SHARE MARKET

The lifting of export ban on rubber to China and the ending of rubber workers' 'go-slow' strike in Malaya stimulated rubber shares in the local market last week. Over 524,000 shares of Amal. Rubbers changed hands while prices advanced from 1.225 to 1.525. There was an all-round improvement in prices as well as an increase in the volume of business following London's ease of embargo on trade with China; last week's total turnover amounted to \$5.663 million which is the highest weekly total since mid-April. The optimism was based on hopes that a bigger volume of trade would pass through Hongkong. Wharves and Godowns therefore attracted large volume of speculative buying; 1,980 shares of Wharves were transacted and the price reached 98 on Thursday; Providents

registered sales of more than 20,000 shares and a gain of 80 cents on the week. The confidence, however, was not shared by everyone in the market because when Wharves reached 98, one investor sold 300 shares at 97.50 while another liquidated 500 shares at 97. Provident also registered profit taking on Friday with 6,000 shares transacted while price gradually declined from 14.80 to 14.50. Utilities also enjoyed heavy turnover and steady gains. HK Banks recovered to 1,675 which is still much lower than the highest this year—1800. Wheellocks gained 40 cents during the week probably on account of the rising freight rates and ship-building cost. Last week's closing rates were very firm:

| Shares | June 1 | Highest | Last Week's Rates | | | Ups & Downs | |
|-----------------|---------|---------|-------------------|---------|--|-------------|--|
| | | | Lowest | Closing | | | |
| HK Bank | 1645 | 1675 | 1645 | 1675 | | +\$30 | |
| Union Ins. | 970 s | 965 | 960 | 965 | | —\$5 | |
| Wheelock | 8.70 | 9.10 | 8.70 | 9.10 | | +40¢ | |
| HK Wharf | 85 | 98 | 86 | 97.50 | | +\$12.50 | |
| HK Dock | 43.25 | 44 | 43 b | 43.50 | | +25¢ | |
| Provident | 13.70 s | 14.80 | 13.60 | 14.50 | | +80¢ | |
| Land | 62.50 | 63.50 | 62.50 | 63.50 | | +81 | |
| Realty | 1.475 | 1.475 | 1.45 | 1.475 | | steady | |
| Hotel | 13.50 s | 13.70 | 13.40 | 13.70 | | +20¢ | |
| Trams | 22.50 b | 23 | 22.60 | 23 | | +60¢ | |
| Star Ferry | 137 n | 137 n | 135 | 137 n | | steady | |
| Yau-mat | 107 | 109 s | 106 | 108 s | | steady | |
| Light (o) | 22.40 | 23 | 22.50 | 23 | | +60¢ | |
| Light (n) | 19.70 b | 20.30 | 20 | 20.30 | | +60¢ | |
| Electric | 30.25 | 30.50 | 30.25 | 30.50 | | +25¢ | |
| Telephone | 22.30 | 23.10 | 22.30 | 23.10 | | +80¢ | |
| Cement | 34.50 s | 34.75 | 34.50 | 34.75 | | +25¢ | |
| Dairy Farm | 15.90 | 16.20 | 16 | 16.20 | | +30¢ | |
| Watson | 10.30 | 11 s | 10.40 | 10.70 b | | +40¢ | |
| Yangtze | 6.55 b | 6.75 b | 6.55 b | 6.75 b | | +20¢ | |
| Allied Investor | 5.35 s | 5.30 | 5.25 | 5.30 s | | —5¢ | |
| HK & FE Invest. | 11.20 n | 11.20 n | 11 b | 11 b | | —20¢ | |
| Amal. Rubber | 1.225 | 1.525 | 1.30 | 1.525 | | +30¢ | |
| Textile | 5.35 s | 5.35 | 5.25 b | 5.35 | | steady | |
| Nanyang | 7.70 s | 7.70 s | 7.45 b | 7.60 s | | —10¢ | |

Monday: Fresh enquiries caused prices to harden in most sections. Utilities led the field but Wharves made most progress. Amalgamated rose to \$1.35 while Rubber Trusts and Ayer Tawah also improved. The day's turnover amounted to about \$830,000.

Tuesday: Amalgamated Rubbers dominated the market and were traded at \$1.35 to \$1.425, closing with unsatisfied buyers at \$1.40. The renewed interest in these shares was caused by the announcement that raw rubber could now be exported to Communist China. Elsewhere prices were well maintained and several improvements reported. Wharves advanced further to \$92. Over 100 Banks changed hands at \$1.645. The turnover amounted to approximately \$1.5 million. **Wednesday:** Providents were firm while Wharves made further headway. Amalgamated remained active but price fluctuated slightly. The turnover amounted to approximately \$760,000.

Thursday: Godown shares continued to improve. H.K. Banks and Union Insurances were traded at higher levels. Rubbers, Wheellocks and H.K. Lands were firm. Utility group remained quiet. The turnover amounted to approximately \$1,030,000. **Friday:** Trad-

ing further improved with further gains registered in most sections. Profit-taking in Wharves and Providents checked the advance of these two issues. Wheellocks moved fractionally higher and Yangtszes were marked up to \$6.75 but found no sellers at this price. Amalgamated and Rubber Trusts continued to advance. The undertone was firm and the turnover amounted to \$1,510,000.

Hongkong Stock Exchange in May

Business was on a restricted scale, and prices sagged through lack of interest, with some notable exceptions.

Announcement of a reduction of 33.1/3% in the Lombard dividend depressed Lombards from \$60½ sellers to a sale at \$45. The market was inactive generally, with buyers waiting to pick up bargains, but as there appeared to be no forced selling, the volume of business reported was moderate. The market closed steady.

Banks & Insurances: Only a moderate business was reported in this group. Disappointment was expressed at the reduced dividend on Lombards (from \$3 to \$2) and was reflected in the sharp drop in the price of these shares. Investment Companies: Allied and Yangtze were in the lead in moderate trading with H.K. & Far Easterns being enquired for and resulting in 7,400 shares changing hands. Shipping. Wheellocks showed some activity at varying rates with Eastern Navigation recording a fair volume of business. Union Waterboats were dealt in at improving prices. Docks & Wharves: Wharf & Dock shares were favourites in this group and shares changed hands at improved rates. Lands & Hotels: The demand for Hongkong Hotels and Hongkong Lands fell off and price re-

ductions were recorded in the former shares. A fair number of transactions in Shanghai Lands and Hongkong Realities were reported. Public Utilities: Apart from Yaumati Ferry and Hongkong Telephone shares (and Rights), demand for shares in this section was not maintained. Industrials: There was little activity in this group, and prices were lowered during the month. Stores: Demand for shares in stores slackened, although moderate activity in Dairy Farms and Watsons was reported. Cottons: Light scale trading took place in this section. Rubbers: Amalgamated and Rubber Trust were dealt in fairly heavily at reducing rates, influenced by the price of the commodity.

Dividend and other announcements were made by Lombards Insurance Co., Ltd., China Underwriters Ltd., Indo-China Steam Navigation Co., Ltd., Peak Tramways Co., Ltd., Caldbeck, Macgregor & Co., Ltd., Wing On Co., Ltd., Ayer Tawah Rubber Plantation Co., Ltd., Shanghai Kelantan Rubber Estates Ltd., Sungala Rubber Estates Ltd., China Emporium, Ltd. and Nanyang Cotton Mill Ltd.

Business reported during May: \$12,812,597. Business reported in 1955: \$333,189,500. Business in Jan./May 1956: \$86,971,220. Business reported May, 1955: \$27,506,330.

| Business During May | |
|-------------------------------|----------------|
| | Qty. of Shares |
| H.K. Govt. Loan 3½% (1948) .. | \$2,000 |
| H.K. Bank | 620 |
| Lombard Insurance | 342 |
| Union Insurance | 174 |
| China Underwriters | 500 |
| Allied Investors | 27,200 |
| Yongtse | 10,335 |
| H.K. & Far East Inv. | 7,400 |
| Union Waterboats (O) | 1,700 |
| " (N) | 250 |
| Asia Navigation | 14,700 |
| Wheelock Marden | 103,224 |
| Wharf Co. | 4,027 |
| Sh. & Hongkew Wh. | 2,200 |
| C. Providents | 18,074 |
| H.K. Docks | 13,940 |
| Shanghai Docks | 2,833 |
| H.K. & S. Hotels | 30,900 |
| H.K. Lands | 14,265 |
| Shanghai Lands | 37,000 |
| Humphreys | 1,000 |
| Realty | 54,313 |
| H.K. Trams | 34,950 |
| Peak Trams (F. Pd.) | 50 |
| Star Ferry | 550 |
| Yaumati Ferry | 7,861 |
| China Lights (F. Pd.) | 39,286 |
| " (P. Pd.) | 21,155 |
| H.K. " Electric | 27,192 |
| " (Bonus) | 2,723 |
| " (Rights) | 15,042 |
| Macao Electric | 2,608 |
| Telephones | 26,664 |
| " (Rts) | 45,334 |
| Caldbeck (Ord.) | 500 |
| Cements | 24,416 |
| Ropes | 2,400 |
| Metal Industries | 1,400 |
| Dairy Farms | 23,002 |

| | Qty. of Shares | Rubber | Qty. of Shares |
|---------------------------|----------------|--------------------------|----------------|
| Watson | 5,171 | Amalgamated Rubber | 450,375 |
| Lane Crawfords | 10 | Ayer Tawah | 8,696 |
| Sincere | 2,035 | Java-Consolidated | 3,755 |
| China Emporium | 113 | Langkat | 1,169 |
| China Entertainment | 529 | Rubber Trust | 56,466 |
| Textiles | 38,500 | S'hai Kelantan | 16,000 |
| Nanyang Mill | 4,750 | Sungala | 1,620 |

HONGKONG AND FAR EASTERN TRADE REPORTS

(June 1—10, 1956)

China's Trade With The West: The United Kingdom and her dependent territories have eased embargo on China by making wider use of the Exception Procedure under which any country may ship goods of strategic importance if it considers that such shipments are vital to its national interest. The Foreign Office in London, however, specified that at the present, the exception procedure covers only items on the list restricted to China

but not to Russia. About 400 export items are now barred to China while the control list for trade with Russia consists of 264 items. London also announced that all applications for licenses by exporters to sell to China would be closely scrutinised to ensure that such exports would not contribute to Chinese military strength. Meanwhile, China's trade with the West has extended to 21 countries from 10 in 1954:

| Country (Type of agreement; date of effect; etc.) | Latest Protocol (Validity & Value) | Chinese Imports | Chinese Exports |
|--|--|---|---|
| Japan | | | |
| Between National Committees; 4/6/55; Barter; 1 year. | 4/5/55 US\$168 m./yr. Renewed 1956 | Galvanized iron sheets, iron goods, steel sheets, generators, textiles. | Coal, iron ore, beans, rice, salt. |
| United Kingdom | | | |
| Barter; 7/7/53 | \$84 m/yr | Machines, chemicals, transportation equipment, textiles, dyestuffs. | Oil seeds, oils, animal products, animal fodder, tea, paper, silk, handicrafts. |
| Burma | | | |
| Barter betw. foreign trade orgs; paymt in £; 24/4/55; for 3 years. | 30/12/55 \$34 m/yr | Rice, rubber, ores, timber, oil cake. | Coal, steel, textile m/c, paper, raw silk, tea. |
| Ceylon | | | |
| Barter; 17/12/52; paymt in £; for 5 yrs. | 17/12/52 | 150,000 tons rubber per annum. | Rice, sugar, cereals, ships (Polish). |
| Indonesia | | | |
| Trade; 1/8/54 | 1/8/54 \$17 m/9 months | Rubber, tin, oil, copra, sugar, coffee. | M/c, chemicals, textiles, foodstuffs, cotton. |
| India | | | |
| Trade & Clearing; 14/10/54; for 2 yrs; paymt in £ & rupees. | 14/10/54 | M/c, chemicals, ores, fibres, textiles, skins, timber, cereals. | Cereals, oils, animal products, silk, paper, antimony, graphite, m/c. |
| Pakistan | | | |
| Barter; 14/5/53; Barter; -/5/56 | 14/5/53 1956 | Cotton Cotton | Coal, silk. Coal. |
| Lebanon | | | |
| Trade & Payment; 31/12/55 | 31/12/55 | Sugar, tobacco, jute, veg. oils, etc. | Iron & steel goods, m/c, tele-communication materials, chemicals. |
| Syria | | | |
| Trade & Clearing; 30/11/55 | 31/12/55 | Cotton, tobacco, wool, agricultural produce. | Machinery and textile equipment. |
| Egypt | | | |
| Trade; 22/7/55; for 1 yr; paymt in £ | 32/8/55 \$56 m/yr | Cotton, calcium, superphosphates. | Industrial & mining equipment, m/c tools, construction mat, textile m/c, steel. |
| Sweden | | | |
| Barter; 1955 | | Equipment for power stations and welding. | |

| Country (Type of agreement; date of effect; etc.) | Latest Protocol (Validity & Value) | Chinese Imports | Chinese Exports |
|--|---------------------------------------|---|---|
| Denmark Trade; 27/12/55 | 27/12/55 \$3 m/yr | Cold storage plants, medical instruments, hospital equipment, drugs. | Soya beans, antimony, feathers, silk, tea. |
| Finland Trade & Clearing; 21/6/54 | 1/5/55 \$30 m/yr | M/c, iron goods, paper. | Oil seeds, soya beans, silk, hog's bristles, gut, resin, tea. |
| West Germany Barter; 1952 | | Power equipment, chemicals, metals, machinery. | Soya beans, cotton. |
| Netherlands Trade; 14/1/55 | 14/1/55 \$2 m/yr | Pharmaceuticals, rayon yarn, oils. | Tea, animal and agri. products. |
| Belgium Barter; 12/55 | 12/55 | 425,000 tons fertilizers, agri. m/c, light engineering goods, plant. | Veg. oils, cotton, non-ferrous metals, porcelain. |
| France Barter; 5/6/55 Trade; 29/3/56 | 5/5/55 \$56 m/yr | M/c tools, steel, motor vehicles, chemicals & equipment. | Tea, silk, veg. oils, feathers, hog's bristles, brushes, fats. |
| Switzerland | | Watches, m/c tools, textiles, dyestuffs, equipment for power stations. | Oil seeds, silk, feathers, egg products, antimony, tea. |
| Italy Barter; 6/55 | 12/55 \$28 m/yr | Chemicals, dyes, fertilisers, card- board, textiles. | Oil seeds, egg products, tea, antimony. |
| Yugoslavia Trade & payment; 17/2/56 | 17/2/56 \$7 m/yr | Leaf tobacco, agri. m/c, chemicals, anti-biotics, cotton, medical apparatus. | Tin, lead, asbestos, graphite, chemicals, raw silk, animal products. |
| Cambodia Trade; 5/56 | 5/56 \$27 m | Agricultural products, rubber, etc. | Machinery, const. mat, foodstuff, etc. |

The Italian trade delegation which returned here last week from China reported that they had signed new contracts with Peking amounting to about £5 million covering silk, egg products, vegetable oils, hides and other produce from China in exchange for Italian fertiliser, artificial fibre and chemicals. Members of the mission said that Chinese had stressed that they were very interested in contracting Italian firms to undertake the building of complete industrial projects for China. In Switzerland, a Chinese cultural mission is setting the stage for more trade between the two countries. China is interested in Swiss precision machinery, instruments and watches and offers in return, Chinese bristles, silk, egg products and honey. To Morocco, Peking sent the first shipment of 25 tons of tea last week. It seems that China is very anxious to promote more trade with the West. UK's ease of embargo on China should therefore bring more business to Commonwealth nations, at least before the £100 million sterling reserve which China has accumulated during past years is consumed.

Hongkong-China Trade: With the exception of a few big trading houses here, business circles were not very enthusiastic over the ease of embargo

on China. Merchants in cotton yarn & piece goods, pharmaceutical, metal, industrial chemical, paper, consumer goods, and dyestuff trades were skeptical about the possible increase in China's purchases from the local market. Dealers in smoke sheets, however, are hoping that a portion of China's purchase of Malayan rubber might be concluded through Hongkong. Some firms are worried that if they ship embargo goods to China under exception procedure, their accounts in US may be blocked. One HK firm was told in 1954 that if it wanted its American account unfrozen, the manager should not visit Peking with a British trade delegation. Authorities here indicated that goods permitted export to China by UK and other colonies might also be shipped to the Mainland from Hongkong. However, by the end of last week, no itemised list of the articles released from the embargo had reached here from London. Meanwhile China sent here 2,000 tons of beans and 1,500 tons of other produce as well as substantial quantities of paper, live animals and poultry, and vegetables and fruits. Transshipments of China produce to Singapore, Indonesia and Japan remained active.

Taiwan Trade: Taipei doubled its naval blockade of the mainland to

prevent foreign ships from taking advantage of UK's relaxation of embargo on China. In Thai markets, Taiwan plans to compete with Japanese and Chinese goods, especially light industrial products; Taiwan will send 1,000 bicycles, 1,000 electric fans and 500 sewing machines to Thailand. Taiwan is also offering rubber goods, vacuum flasks, electric bulbs and watt meters to Thailand. Taiwan and Japan finally agreed to exchange following goods during the current year ending March 1957: Taiwan will export to Japan sugar (US\$26 m.), rice (\$23 m.), bananas (\$4.5 m.), and salt (\$2.5 m.); in return, Taiwan will import from Japan fertiliser (\$22 m.), iron & steel products (\$10 m.), machinery (\$8.9 m.) and communication equipment (\$3.5 m.). Taiwan live hogs are so popular here that HK dealers are asking for more imports. During the past nine months HK imported from Taiwan 15,542 heads of live hogs; dealers here want to import 200,000 head every year.

Japan Trade: Japan's Minister of International Trade and Industry announced that Japan, like Britain, would increase her trade with China by making most constructive use of the exception procedure. As a matter of fact, Japan had already shipped 5,000 tons of galvanized sheets to China last year. Cargo movements between HK and Japan were so active recently that shipping companies decided to increase freight rates from HK to Japan by 10% as from June 26, 1956. General cargo will be increased from \$57.50 per ton to \$63.25; oil seeds from \$30 to \$33 and maize from \$25 to \$27.50 per ton. Rates for scrap iron and beans are not fixed and will be arranged between shipper and shipping agents; current rates are \$25 per ton for beans and \$27/\$30 per ton for scrap iron. In SE Asia, Japan is developing more direct trade and helping backward countries in their industrialisation programs. Under reparation agreements, Japan is now building factories for Burma, Philippines and Cambodia.

Korea Trade: By the end of last week there were still about 2,000 tons of cargo awaiting shipments from here to Pusan. More enquiries for paper, metals, etc. reached here but buying offers were usually low and the volume of purchases limited. Nevertheless, demand from Korea kept the local commodity market active and showed no sign of receding.

Indonesia Trade: Djakarta announced that Indonesia would soon start exporting rubber to China. Authorities there estimated that China's consumption of rubber amounted to 600,000 tons a year and hoped that Indonesia would supply half of this quantity. Other Indonesian staples which were under embargo include tin and oil. If Djakarta eventually sends rubber, oil and tin to China, Peking

would export cement, metals, textiles and other light industrial products in return. This would greatly affect HK's exports to Indonesia which have already been much curtailed by the development of direct trade between Japan and Indonesia. Meanwhile, due to the shortage of her foreign exchange reserve, Djakarta further curbed imports of luxuries. To protect her domestic industries, Djakarta was considering to ban imports of strawboard and canned meat in addition to knitted wears and aluminium ware. In view of these developments some HK manufacturers are setting up factories in Indonesia; in addition to knitting, shirt making and enamelware factories established earlier by HK industrialist, a nylon tooth brush factory in Semarang organized jointly by HK and Indonesian merchants will soon start production.

Thailand Trade: Premier Pibul Songgram announced in Bangkok that Thailand would not sell rubber to China because "Thailand is getting US aid while Singapore and Malaya are not." Earlier last week, Thai Finance Minister had stated that Thailand would sell her rubber directly to China because Thai rubber sent to Malaya would find its way to China any way. Meanwhile, HK-Thailand trade remained active; about 3,000 tons of rice, over 480 heads of live cattle, 3,000 bags of salt reached here from Thailand during the first 10 days this month while HK shipped to Bangkok over 2,300 tons of textiles, underwears, enamelware, metals, structural materials, machinery, sewing machine, electric appliances, torch, cosmetics, rain coat, gunny bags, paper, and foodstuffs. HK exports are not only meeting vigorous competition in Thai markets from Chinese and Japanese products but further handicapped by the increased HK-Bangkok freight rates (as from June 1, 1956): salted vegetables, wheat flour, textiles, enamelware, torch batteries, hurricane lantern and aluminiumware increased from \$50.40 to \$61.20 per ton.

Singapore & Malaya: On June 4, the Malayan Government announced that exports of rubber to China, banned for 5 years, would be permitted in "reasonable quantities." Malayan Minister of Commerce said that payment for rubber must be made in sterling. He also announced, "There are no fixed limits on the exports as long as we are convinced the rubber is being used for civilian purposes." Singapore Minister for Commerce and Industry stated that applications for exports of more than 2,000 tons of rubber would be dealt with in consultation with the British Colonial Office. The Straits Times, however, said China would not be a big buyer of Malayan rubber "for some time because she would have to continue buying rubber from Ceylon under a barter agreement between the two

countries. Meanwhile rubber prices in Singapore went up; No. 1 smoke sheet improved from 72 cents per lb. on June 3, to 85 cents on June 8; No. 2 from 71 cents to 82½ cents; and No. 3 from 70 cents to 81½ cents. Cargo movements between HK and Singapore slowed down recently. Shipments from here to Singapore during the first 10 days this month included 1,600 tons of cement; 800 tons of sugar, garlic, preserved vegetables, etc.; and 50 tons of sundries. Imports from Singapore and Penang consisted mainly of firewood and charcoal.

The Philippines: Japan is vigorously promoting exports of textiles, cotton yarns, shirt and underwear, socks and towel to the Philippines. These items will also be shipped to the Philippines as part of Japan's reparation payments. Dealers here are much worried about this development because eventually, Manila would buy less from HK. In spite of the ban enforced by Manila against imports of Communist goods from HK, shipments of Chinese staples from here to the Philippines have not been completely stopped. Most Chinese staples such as vermicelli, are shipped from here to the Philippines as HK products.

Vietnam, Laos and Cambodia: During June/August, Saigon will import under US aid program, \$2,475,000 milk powder and condensed milk, \$5.55 m. iron, steel and brass products, \$3.5 m. pharmaceuticals, \$0.88 m. fertilizer, \$2 m. paper, \$0.9 m. electric appliances, cosmetics, etc. Under barter arrangements, HK sent to Haiphong small quantities of industrial chemicals, pharmaceuticals, cotton textiles and electric appliance in exchange for cassia lignea, vegetable oils, tea, and other staples from Haiphong. Cambodia is purchasing, with US aid funds, \$6.4 m. textiles, \$0.1 m. newsprints, \$0.9 m. steel products, \$1.5 m. cement, \$20,000 fertilizer, \$0.15 m. paper and straw board, \$1.9 m. industrial machinery, \$0.25 m. rubber products, \$0.7 m. pharmaceuticals, \$0.1 m. metal products, \$0.25 m. electric appliances, \$0.375 m. sugar, \$0.35 m. motor cars and spares. Enquiries reached here from Laos covered metals, wheat flour, sugar and cotton textiles. Shipments from here to these three states slowed down during the first 10 days this month.

India and Pakistan: A trade delegation from India came here to promote more trade with HK. Members of the mission are traders of textiles, soap, glass, metal, pigment, paper and other goods. About 200 tons of groundnut oil, cotton seed oil and other staples reached here from India last week. Pakistan continued to send cotton yarn and cotton to the local market.

Burma Trade: Rangoon expanded the list of imports under open general licence to include coconut oil, dried

prawns, fish, onions, essential toilet articles, motor tyre tubes, selected building machinery and machine parts. Burma is also negotiating with other nations for the processing of raw cotton bought from US and considering to issue additional licences for imports of textiles against free foreign exchange to a sum of 50 million kyats (about £3.75 m.). Burma's foreign exchange reserve recently improved as a result of increased export of rice to the Philippines and other countries.

Other Countries: Large quantities of metals, paper, industrial chemicals, textiles, fertilizer, dyestuff, pharmaceuticals, foodstuffs, etc. reached here from Europe during past two weeks. In return, Hongkong sent to Europe China produce and HK manufactured goods. HK products also enjoyed much improved demand from Africa. A trade official from Nyasaland, British Central Africa came here last week to promote trade with HK. To New Zealand, HK sent a shipment of planks processed locally from timber imported from North Borneo. Australia sent here 1,968 tons of wheat and substantial quantities of frozen meat, fruit, butter and wools. About 600 tons of HK manufactured gloves, torch, textiles, umbrella, plasticware, rattanware, and rubber footwear left here for Australia during the fortnight.

China Produce: Trading remained active with supplies from China, Thailand, Vietnam, and Taiwan absorbed by orders from Japan, Europe and SE Asia. Beans eased slightly at the beginning of the month when more supplies reached here from various sources; broad bean later improved on strong local demand and orders from Japan and Korea, soya bean recovered after Japan absorbed 2,000 tons and Singapore made substantial purchases. Bristles were short in supply; South American bristles were processed here for exports to US. Sesame retained strong demand from Japan and in spite of heavy arrivals from Thailand, Sudan, Cambodia, Vietnam and Africa, stock remained low; price advanced but low buying offers from Japan limited the improvement. Cassia lignea firmed when Europe enquired for 1,400 bales; orders were also received from India, S. America, and Aden. Garlic was very popular with India, Cambodia, Vietnam, Singapore and Indonesia; trading improved with more supply from China and Taiwan. Dried red chilli remained very firm on orders from India and Ceylon. Other popular items which registered gains include hemp seed favoured by Japan; groundnut kernel on short supply and advanced Philippine indent; menthol crystal with steady demand from Pakistan and Indonesia; gypsum on increased cost; and fresh eggs on dwindled stock. On the other hand, groundnut oil eased because Thai indents declined; citromella oil dropped to \$5.70 per pound

when world market eased; galangal depressed by heavy stock; realgar eased under selling pressure. UK enquired for 100,00 lbs of Taiwan tea; negotiations prolonged because buying offers were lower than Taiwan export floor prices.

Paper: The market was very buoyant with Korea providing demand for European and US products and SE Asia buying Japanese and Chinese goods. Dealers here booked more Chinese newsprints to meet the steady demand. Korea enquired for 200 tons of newsprint in reels; price firmed but indent cost advanced further. Local quotations for newsprint in reels towards last week-end were: US, 31", 50/52 gr, 54c per pound; Canadian origin, 52 cents, Austrian, 50 cents; Norwegian, 53½ cents; Japanese, 46 cents; Chinese, 46 cents. Chinese newsprint in reams was popular with Thailand; price improved on advanced cost. Korea also enquired for 3,000 reams of woodfree printing which was short in stock, particularly European goods; Japanese products were favoured by local printing shops but price failed to improve because Japanese indents were lowered. Transparent cellulose paper declined under selling pressure at the beginning of the month when shipments from Japan and Europe saturated the market; prices later firmed after Korea returned to the market for 500 reams and demand from Taiwan and local retailers improved. M.G. white sulphite failed to improve on Korean enquiries and local demand because shipments from Europe were expected and selling pressure was developed. Tissue first declined so much under selling pressure that local quotations were lower than new indent cost; towards last week-end it recovered slightly on enquiries from Korea. Strawboard of Chinese origin enjoyed steady local demand but stock was heavy after recent arrivals and price weak. Many transactions were still under negotiation at the end of last week.

Metals: Structural steels and factory items continued to dominate the market. The ease of embargo on China developed speculative buying in black plate, tin plate, galvanized iron sheet, zinc sheet and zinc ingot. Prices in general improved partly on account of these speculative transactions and largely due to increased cost of raw materials and marked-up European and Japanese indents. SE Asia remained

keen in structural steels and factory supplies while Japan continued to absorb substantial quantities of iron and brass scraps.

Industrial Chemicals: Taiwan and Korea provided limited demand for selective items; prices were steady in general. Taiwan enquired for 600 cases of shellac and Korea wanted 100 cases; quotations remained weak because Indian indent was marked down and buying offers were low. Sulphur powder improved on advanced indent, tanning extract firmed on low stock, gum arabic gained on orders from Taiwan, titanium dioxide stimulated by enquiries from Korea and zinc oxide steady on dwindled stock. Trading in general was slow because there were more enquiries than orders from Taiwan and Korea.

Pharmaceuticals: Trading was limited to orders from Singapore for quinine powders, penicillin preparations, kemicetine capsules; from Taiwan for lyzol solution, urethan, potassium iodine, atophan tablet, chloromycetin capsules, dihydrostreptomycin; from Thailand for quinine powders, dihydrostreptomycin, aspirin powder, acid benzoic, saccharine crystal; and from China for aspirin powder, vitamin C powder and caffeine alkaloid. Local demand was also weak.

Yarns & Piece Goods: The market was quiet. HK yarns of 10's counts were firm on steady local demand but those of 20's and up eased due to slow exports. Pakistan yarns were kept steady by increased cost, Indian yarns firm on dwindled stock, but Japanese products declined. The sluggish market was further depressed by the arrival of 30 tons of yarns from China last week. HK grey cloth was favoured by Africa but demand from Indonesia slowed down. HK drills were depressed by low priced Chinese drills. Japanese grey sheeting declined when cost was marked down. The weak market was further affected by imports of grey sheeting from Taiwan.

Rice: Heavy arrivals from Thailand eased Thai rice in the local market in spite of firm quotations in Bangkok. In view of the growing difficulty which Thailand is facing in her rice exports, recent advance in Bangkok was caused by manipulation and not because of supply and demand factors. Chinese rice enjoyed steady local demand and prices were firm. Burmese rice was steady on low stock. Glutinous rice eased

towards last week-end because China sent here heavy supplies just before the Dragon Boat Festival (June 13).

Wheat Flour: US flour improved on increased freight rates, Australian and Canadian products firmed on advanced indents while HK flour steady on local demand and exports to African markets.

Sugar: Taiwan sugar first eased under selling pressure after heavy arrivals but later steady due to the lack of new offers from Taipei. Philippine brown sugar enjoyed good local demand; price firm on low stock. Chinese slab sugar declined while Taikoo granulated remained steady. Towards last week-end, enquiries for 2,000 tons from Laos brought new stimulation to the market.

Cement: Japanese cement continued to advance from \$116 to \$117.50 per ton ex-ship; indent remained at \$113 per ton c & f HK. Ex-ship price for Chinese cement was \$115 per ton. HK Green Island products enjoyed steady demand from Singapore, N. Borneo and local contractors; retail prices were \$6.40 per bag of 100 lbs and \$7.10 per bag of 1 cwt. Retail price here for Chinese cement was \$5.60 per bag of 45 kilos and for Japanese products \$5.80 per bag of 100 lbs and \$6.50 per bag of 1 cwt.

Hongkong Products: Rattan Furniture retained steady demand from US; one recent shipment was about 1,200 tons. UK also ordered about 2,000 pcs of rattan chairs from here. Enamelware manufacturers here increased export prices by 5% on account of advanced cost of raw materials. This is the third increase this year; first increase was made in February and the second in April. Hurricane Lantern manufacturers here have enough orders to keep themselves busy till end of October this year. Glove factories here are receiving increasing number of orders from UK, Canada, US, and Europe beginning this month.

May Trade Figures: HK official trade figures for May are: Imports \$428,103,517; Exports \$308,076,753. The total value of trade for May compared with that for the corresponding month in 1955 shows an increase of \$239,614,734 with imports up by \$133,217,915 and exports by \$106,396,819. The cumulative total for Jan.-May this year is also higher than that for the same period last year.